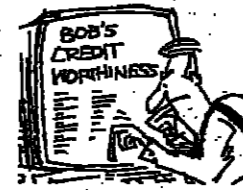




**Italy's rising star**  
Will Berlusconi  
come out on top?  
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Coping with an  
ageing population  
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US communications  
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# FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY MARCH 8 1994

D3523A

## Hurd urges EU to drop 'grand plans' and raise efficiency

British foreign secretary Douglas Hurd called on Britain's European partners to drop grand ambitions for further institutional change in the European Union and commit themselves to making the present administration work. He said the 12 should set as their first priority "the integrity and effectiveness of administration in Europe". The EU should do less but do it better. Page 18

**USAir predicts bigger losses:** USAir, beleaguered US carrier in which British Airways holds a 24.6 per cent stake, said competition from low-cost carriers was likely to push first-quarter pre-tax losses to \$200m, compared with \$61m in the same period last year. Page 19; Editorial Comment, Page 17; Lex, Page 18

**All Nippon Airways:** Japanese carrier hit by weak demand, said it expected an annual pre-tax loss of ¥3bn (\$28m), compared with a previously forecast pre-tax profit of ¥6bn. Page 19

**Microsoft head condemns multimedia trials**



Bill Gates (left), founder and chairman of Microsoft, the world's largest personal computer software company, poured cold water on the value of most of the "multimedia" trials in the US and Europe. He predicted that trials based on home entertainment would prove to be dead ends and counterproductive to the establishment of a viable multimedia industry. Page 19

**Calls mount for Japan to cut surplus:** Japanese business federation the Keidanren joined leading businessmen and politicians in urging the government to adopt voluntary targets to reduce Japan's surplus in the medium term. Page 7; Japanese companies to slash spending, Page 4

**German nuclear site checks resume:** A court in Lüneburg, Lower Saxony, gave the go-ahead for work to resume on investigations for Germany's first full-scale nuclear waste disposal site in the disused salt mines at Gorleben, on the banks of the river Elbe. Page 18

**Hungary and Poland press EU:** Hungary and Poland stepped up pressure to be made members of the European Union and to force the EU to open its doors to eastern Europe by the end of the decade. Page 2

**Hong Kong stock exchange plans reforms:** The Hong Kong stock exchange, sixth biggest in the world, unveiled proposals including greater self-regulation among market players and tougher disclosure requirements, in line with its bid for increasing internationalisation. Page 22

**Mandela rejects white homeland:** African National Congress chief Nelson Mandela rejected a demand by white rightwingers for a separate homeland in South Africa, saying it would never happen in his lifetime. Bophuthatswana spurs election, Page 4

**BBA to shed 2,000 jobs:** UK Engineering group BBA said it would cut its dividend and shed 2,000 jobs as part of a rationalisation and disposal programme following a pre-tax loss of £12.8m (\$18.7m) last year compared with a £47.4m profit in 1992. Page 20; Lex, Page 18; Details, Page 25

**Russian telecoms sale:** Russia is due to offer 22 per cent of Rostelecom, its telecommunications company which controls much of the country's international traffic and practically all long-distance domestic traffic, to Russian and foreign investors next week. Page 7

**China's reforms 'cause decay':** China's economic reforms have caused a dangerous decentralisation of power and contributed to social decay and rising crime, a paper published by the London-based International Institute for Strategic Studies says. Page 4

**Cambodia seeks long-term investors:** The Cambodian government has completed a draft investment law which it hopes will encourage investors interested in the country's long-term development. Page 4

**Brown attacks jobs policy:** Shadow chancellor Gordon Brown said Britain would be the only country at the jobs summit of the Group of Seven leading industrial nations next week to press a policy of industrial deregulation. Page 8

STOCK MARKET INDICES		STERLING	
FT-SE 100	3,365.9 (+27.5)	New York Luncme:	\$ 1.481
Yield	3.82	London:	\$ 1.486 (1.490)
FT-SE Eurozone 100	1,480.44 (+32.03)	DM	2.5915 (2.5925)
FT-SE-AF Share	1,694.58 (+0.79)	FF	8.5598 (8.7113)
Nikkei	19,911.88 (-154.12)	SFR	2.1445 (2.1488)
New York Luncme	3,365.9 (+27.5)	Y	157.780 (157.244)
Dow Jones Ind Ave	3,365.9 (+27.5)	\$ Index	81.2 (same)
S&P Composite	467.52 (+2.78)		
US LUNCME RATES		DOLLAR	
Federal Funds	3.5%	New York Luncme:	DM 1.7185 (1.7198)
3-mo Treas Bill: Yld	3.575%	FF	5.835 (5.8455)
Long Bond	5.3%	SFR	1.4387 (1.4418)
Yield	5.785%	Y	158.259 (158.515)
LONDON MONEY		\$ Index	81.5 (same)
3-mo Interbank	5.1% (5.1%)	London:	DM 1.7194 (1.7198)
Life long gilt future: Mar 11/2 (Mar 11/2)		FF	5.8355 (5.8455)
NORTH SEA OIL (Argus)		SFR	1.4387 (1.4418)
Brent 15-day (Apr)	\$13.08 (13.48)	Y	158.259 (158.515)
OIL		\$ Index	81.5 (same)
Brent 15-day (Apr)	\$13.08 (13.48)	New York Comex (Apr)	\$376.9 (376.8)
Oil		London	\$377.5 (376.5)
New York Comex (Apr)	\$376.9 (376.8)		
London	\$377.5 (376.5)		

Austria	Scd 120	Germany	D350	Italy	Lm 100	Japan	Y 157.780	UK	£ 1.481	US	\$ 1.481
Belgium	D350	Hong Kong	1991.88	Latvia	Lat 100	Malta	Mal 100	Norway	Nkr 100	Spain	₧ 166.64
Denmark	D350	India	₹ 157.780	Netherlands	ƒ 100	Poland	zł 100	Portugal	₮ 200	Sweden	Skr 100
France	FF 100	Romania	lei 100	Slovakia	SKK 100	Slovenia	SIT 100	Switzerland	Sfr 100	Taiwan	Nt\$ 100
Germany	D350	South Africa	R100	Turkey	₺ 100	USA	\$ 1.481	Yugoslavia	Din 100		

## Central bankers rule out action to curb hedge funds

By John Gapper in Basle and Our Markets Staff

Central bank governors yesterday decided against any immediate move to curb the activities of hedge funds or of banks that use their own capital to trade on international financial markets.

Bank governors from the Group of Ten countries agreed at their monthly meeting in Basle that markets had corrected themselves and there was no reason

to anticipate further turbulence. Most European bond and equity markets made healthy gains yesterday as hopes rose that the German engineering pay settlement at the weekend could give the Bundesbank room to cut interest rates and open the way to lower rates elsewhere.

There has been concern that US hedge funds, which are estimated to trade with at least \$50bn of capital, have increased volatility in the past two weeks by selling bonds and trading

financial derivatives. Mr Hans Tietmeyer, president of the Bundesbank and chairman of the G10 governors, said they had taken "a relatively relaxed view" of recent price falls. "It was seen to some extent as a correction of a development before, and the view was that the fundamentals are more or less sound. That means there is no reason for further turbulence," he said.

Mr Tietmeyer said central banks would examine further the

activities of "hedging institutions", including hedge funds. "We are willing to examine closely what is going on with these new techniques, but we do not think that there is for the time being any need for specific regulations," he said.

Although some central bankers previously had expressed concern about the rapid growth of trading of derivatives such as interest rate and currency swaps, Mr Tietmeyer said the governors had not reached a final decision.

"We think we have got to live with these new techniques, but we will follow closely what is going on," he said. There have been worries over the activities both of hedge funds - limited partnerships mostly managed from the US, which attempt to make big short-term gains on financial markets through leveraged and high-risk investments - and the proprietary trading activities of banks and investment banks. The Bank of England and the

US Federal Reserve have been taking soundings among the banks they supervise to assess their exposure to hedge funds. The funds themselves are largely based offshore and fall outside the direct control of banking and securities regulators. Mr Tietmeyer also said a big jump in the German M3 money

Continued on Page 18  
Bond markets, Page 22  
World stocks, Page 28  
London shares, Page 31

## Major eases stance on boosting UK Bosnia force

By Philip Stephens and Judy Dempsey in London

The British government said yesterday it intended to take the initiative in international efforts to provide more troops for the United Nations peacekeeping forces in Bosnia.

In spite of the misgivings of several members of his cabinet, Mr John Major, the prime minister, all but committed Britain to providing extra troops.

Mr Major said that Mr David Hannay, Britain's ambassador at the UN, had last night begun a series of meetings in New York with other potential contributors to co-ordinate the effort.

Ambassadors of the countries with troops in Bosnia and Croatia, including the UK, France, Canada and Spain, will be at the meetings, along with the US, which has a few troops in Macedonia.

General Sir Michael Rose, UN commander of the forces in Bosnia, called last week for an additional 10,000 troops to consolidate the UN's recent successes in establishing truces between Bosnian Serb, Moslem and Croat forces in Sarajevo and other Bosnian areas.

In what amounted to a sharp reversal of Britain's previous policy, Mr Major said: "What we are seeking to do is to try to reinforce the UN's own efforts by promoting a coherent and urgent and positive response to their appeal for more troops."

He indicated that he expected France and the US to be represented at the New York talks, adding: "I think there are a wide range of countries that may be able to help. We have been in contact with a lot of them."

Senior Whitehall officials said the change of heart had been in response to the rapidly changing

situation on the ground in Bosnia. The ceasefire in Sarajevo needed consolidation and the UN wanted to build on its more recent successes in Srebrenica and Tuzla.

The officials said that Britain would be able to provide an additional battalion - between 900 and 1,200 soldiers - if its international allies agreed a concerted move to bolster the UN forces.

Mr Major accepts that the US administration is unlikely to drop its fierce opposition to the early commitment of American ground troops. But Sir David will be pressing France and Britain's other European partners to increase their effort significantly.

The UK's efforts to increase the number of troops in Bosnia coincides with a push by the US to try to involve Serbia in talks between Bosnian Croats, Moslems and Croatian government officials in Vienna.

Mr Charles Redman, the US special envoy to former Yugoslavia, will travel to Zagreb, Sarajevo and Belgrade, the Serbian capital, where he is expected to meet the president, Mr Slobodan Milosevic.

"Everybody knows that there can be no overall agreement without the Serbs," a western diplomat close to the Vienna negotiations said yesterday.

All three sides in Vienna are trying to draw up a constitution aimed at forming a federation between Bosnian Croats and Moslems in one part of Bosnia, but which will be linked with Croatia through a confederal structure.

In the interim, General John Galvin, the former supreme allied commander of Nato forces in Europe, has been asked by Mr William Perry, the defence secretary, to assist in the military aspects of the agreement.

## Union split over how to share voting rights among 16 members Norway's EU plans under threat

By David Gardner in Brussels

Norway's prospects of joining the European Union appeared to be in jeopardy last night, as neither Oslo nor Madrid would budge on Spain's demands for extra cod from Norwegian waters.

As EU foreign ministers and Norway resumed membership negotiations, concluded last week on Austria, Sweden and Finland - the 12 remained badly split on how to share voting rights in a Europe of 16.

Decisions on both issues must be provided by tomorrow to the European parliament, which on Thursday decides whether to start ratifying enlargement, in time for the four to enter next January.

On fish, Spain insists it must

get back the 7,000 tonnes of cod it used to catch in Norwegian waters before it was barred in 1981. And it wants a guaranteed share of the 11,000 tonnes Norway ceded to the Union's four poorest members as part of the European Economic Area free-trade zone treaty of this year.

Norwegian documents dating from 1978, provided by Spanish diplomats, show Spain had cod and other quotas in the Barents Sea. But Norway is refusing any extra quota, although it is likely to negotiate on the EEA fish.

"We are exactly where we were before," one Spanish diplomat said after a fruitless meeting last night between Mr Javier Solana, Spanish foreign minister, and Mr Bjorn Tore Godal, his Norwegian counterpart.

Negotiators nevertheless hoped that EU efforts to find a formula for Norway to keep de facto control of waters above the 62nd parallel might induce Oslo to move on the Spanish demand.

Mrs Gro Harlem Brundtland, the Norwegian prime minister, cancelled a trip to Stockholm last night to be on call in Oslo for the talks. And EU member states were poised to bring heavy pressure on Madrid if Norway moved at all, senior negotiators said.

EU ministers went into closed session last night to try to resolve the voting dispute, with Spain and the UK showing no sign of flexibility on their refusal to shift the number of votes needed to block EU measures from 23 (out of 76) to 27 out of 90, assuming four new members.

France, Germany, the Benelux countries and Ireland want a 27-vote blocking threshold.

Yet a further complication threatened to arise with the three Nordic countries' desire for a declaration underwriting their traditions of open government.

EU weighs up votes, Page 2  
Hurd urges EU to drop grand ambitions, Page 18

## Martin Marietta launches agreed bid for Grumman

By Martin Dickson in New York

Martin Marietta, which has become one of America's largest defence contractors after a series of acquisitions, launched an agreed \$1.9bn bid for fellow defence group Grumman yesterday.

It is Martin Marietta's third big takeover deal in less than 18 months and marks a further consolidation of the US defence industry, which is rationalising in the face of a rapidly shrinking defence budget.

Maryland-based Martin Marietta is to pay \$55 a share in cash for Grumman, which is based in Long Island, New York. Grumman's shares leapt 31% when the deal was announced, to stand at \$54 at lunchtime. Wall Street enthusiasm for the deal pushed Martin Marietta stock up 1% to \$46.

Martin Marietta bought General Electric's aerospace division for \$3bn in late 1992 and is currently in the final stages

of buying General Dynamics' space launch business for \$208.5m.

Grumman, which reported a 1993 income of \$120.5m, or \$3.50 a share, from continuing operations on sales of \$3.2bn, used to be known primarily as a maker of military aircraft, such as the F-14 fighter used by the US Navy.

However, a dearth of orders in recent years has forced it to diversify into electronics and data systems, and the only aircraft it now makes is the E-3C Hawkeye, a carrier-based early warning aircraft. Its biggest electronics programme is the J-Stars airborne surveillance system, which is based on an adaptation of a Boeing 707 airframe.

Martin Marietta, with 1993 sales of \$9.3bn and earnings of \$450m before special charges, has become the world's largest aerospace electronics contractor.

Mr Norman Augustine, chairman of Martin Marietta, said the two companies were complemen-

tary both in terms of their businesses and geographical areas of operation. The acquisition should also mean an immediate improvement in Martin Marietta's earnings per share.

The deal, taken together with the earlier acquisitions, will give Martin Marietta "critical mass" in every one of its product areas. The company did not expect to be making other large acquisitions in the near future.

Mr Augustine refused to rule out job cuts as the result of the merger, and analysts expect a substantial rationalisation. Martin Marietta has gained considerable experience in cost-cutting from its takeover of the GE business, which led to the closure of about a dozen plants.

Mr Benno Caporali, chairman of Grumman, said it had decided more than a year ago that it needed to make a strategic move to thrive in a shrinking defence market, and the Martin Marietta deal was the best option, giving it the support necessary for growth.



Bill Clinton walks in the grounds of the White House yesterday as accusations flew over the Whitewater affair  
Associated Press  
Page 18

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## NEWS: EUROPE

# Privatisation of Renault faces delay

By David Buchanan in Paris

Mr Edouard Balladur, French prime minister, has quietly signalled his reluctance to privatise Renault, the state-owned car maker, this year, in contrast to his industry minister's continued enthusiasm for going ahead with the sale despite the break-up with Volvo.

The prime minister's officials insisted yesterday that no definite decision had been made to delay the car company's privatisation. But they did not refute a statement over the weekend by one of their number that, with last month's sale of Elf-Aquitaine, the oil major, bringing in FF33bn (€3.8bn) and the imminent flotation of the big UAP insurance group, prepared by decree last November, the government's goal of raising FF55bn from privatisation in 1994 "will be met".

Nor did the officials damp speculation that Mr Balladur's reticence applies chiefly to Renault, though 16 other companies remain on the government's privatisation list.

Only last week, in an interview with the Financial Times,

Mr Gérard Longuet, industry minister, said he still hoped Renault could be sold off this year - depending on the state of the stock market - as had been planned in the context of its merger with Volvo. An official at the prime minister's office insisted yesterday that any caution on Mr Balladur's part was "not cyclical" and not related to the fear that recent volatility on the stock market might interrupt privatisation.

Some French press analysis of Mr Balladur's reservations about an early Renault sale have highlighted resistance by the communist-leaning CGP union inside Renault and the prime minister's desire not to add to the trade union opposition he is already meeting on wage legislation.

Another possible factor mentioned by observers is the fact that Mr Louis Schweitzer's mandate as president of Renault comes up for renewal in May, and that delay could give Mr Balladur the chance to substitute for this Socialist appointee a political loyalist to take the company into the private sector.

By Lionel Barber in Brussels

Hungary and Poland yesterday stepped up pressure to be made members of the European Union and to force the EU to open its doors to eastern Europe by the end of the decade.

Hungary said it would submit a formal application to join the Union next month,

with the goal of starting accession talks in 1997. Poland raised the possibility of immediate "partial membership" of the EU, through full participation in the EU's foreign and security activities, as well as justice and home affairs. The diplomatic moves followed inaugural "association councils" between foreign ministers of the 12 and their

Polish and Hungarian counterparts.

These councils are the new vehicles for co-operation between the EU and the six "associate" EU member states: Poland, Hungary, the Czech republic, Slovakia, Bulgaria and Romania.

Foreign ministers also agreed to an Anglo-Italian plan for formal co-operation at

international conferences and "joint foreign policy actions" with the associate EU members. But more work is needed on justice and immigration.

The Anglo-Italian initiative is part of a broader reassessment of EU policy toward central and eastern Europe which began at last June's European summit in Copenhagen. At that time, EU leaders agreed to

the principle, but not the timing, of EU membership for the six ex-communist countries.

Now the idea of a "wider Europe" which would provide for faster integration is also being driven by fears about Russian nationalism and the risk Moscow might seek to reclaim its sphere of influence. The chief obstacle to membership is that the east Euro-

peans fledgling market economies could not withstand the shock of competition.

Mr Andrzej Olechowski, Polish foreign minister, pressed his EU counterparts yesterday to consider "partial membership". This would involve a delay in Poland taking on full economic commitments while allowing immediate participation in other areas.

## EU weighs up the votes and the cod

By David Gardner in Brussels

A handful of votes in the European Union's council of ministers, and a few thousand tonnes of Norwegian cod, last night stood between the EU and its biggest ever enlargement, to take in Sweden, Finland, Austria and possibly Norway as new members.

As negotiations at foreign minister level looked almost certain to stretch into today and possibly tomorrow, only the dimmest glimmer of how to resolve these two rows could be discerned. The two issues must be settled to allow the European parliament to decide on Thursday whether to start approval of the accession treaty in time for the newcomers' entry next January. All applicants except Norway have settled their entry terms. But the dispute over votes could jeopardise prospects of early entry for all four. Spain and

the UK insist for different reasons on maintaining the right of two large and one small member states to block EU measures in the council, under the EU's weighted majority voting system.

If the "blocking minority" is maintained at 23 votes, then the threshold of assent rises from 54 votes out of 76 to 68 out of 90 once the four new members enter. A majority of the 12 want the blocking minority moved to 27.

Votes in Council are distributed roughly according to size of country. But with four small newcomers, the British argue that the relationship between size of population and voting strength is being stretched beyond the bounds of democratic legitimacy. "You could have a failed blocking minority representing 41.5 per cent of the Union's population," a UK official complains. Spain worries that a move to 27 could see

the South out-voted on Mediterranean policy issues.

The Benelux countries, Ireland and France are firmly in the 27 votes camp, but other countries are ambivalent. Italy, on the EU's federalist wing,

cult," UK foreign secretary Douglas Hurd acknowledged yesterday. Euro-MPs are threatening to block accession unless the blocking minority is changed, and the Dutch and Belgians are warning that

ing which the EU would review its standards, and hopefully upgrade them.

Some EU negotiators speculated last night that some form of "solemn declaration" alongside the accession treaty might conceivably break the impasse. Spain would have to be assured that its interests would be taken into account; the UK would at the very least need some guarantee that the 1996 review would match inhabitants to votes more closely.

Resolution of the votes dispute looks unlikely until today, and seemed to be encouraging Norway to dig in its heels on fish, in the hope that if Spain got some satisfaction on voting it would moderate its equally insistent demands for Norwegian cod.

Spain wants 7,000 tonnes to restore its "historic" catch, before it was barred from Norwegian waters in 1981, and its

roughly half share of the 11,000 tonnes Norway cedes to the poorest Union members under this year's European Economic Area (EEA) free trade zone treaty.

Under EEA arrangements for mutual access to waters, Norway would also lose the EU 40,000 tonnes of its cod quota from this year. But it is adamant that it will surrender not one fish more - and even suggesting it could withdraw these quotas if it joins the EU and its membership of the EEA therefore lapses.

However, a Spanish fisheries official said: "It doesn't matter to us where these tonnes of fish come from. But we cannot go home without them. This is not a bluff."

## Belgrade theatregoers find a respite from the war

Huddled in scarves and overcoats, a Belgrade theatre audience intently follows the argument between a grizzled Bosnian moneylender, played by one of Serbia's leading actors, with an Austrian officer who wants to marry Gago, his maid.

"The Girl with Purple Hair", set in a period of turmoil as the Austro-Hungarian empire was collapsing, opened nearly a year ago, but tickets are still hard to get.

Despite being shabby and unheated, Belgrade's theatres are playing to capacity audiences for the second successive winter. With the price of a theatre ticket still only the equivalent to buying a Coke at a

Belgrade disco, theatre is one of cheapest forms of entertainment.

Although Serbian actors and directors acquired a good reputation dur-

**Cheap tickets mean capacity audiences, writes Kerin Hope**

ing the 1980s, it was only after the rupture Yugoslavia was plunged into isolation by UN sanctions 20 months ago because of the war in Bosnia that theatres started filling up.

Mr Milan Vujicic, arts editor of the Belgrade daily Politika, says:

"Most people can't afford to frequent restaurants any more, and cheap theatre tickets make it possible to have an evening out. But there's also a new, younger audience for serious plays, just as there was during the second world war."

Few new films reach cinemas in Serbia and Montenegro. State-controlled television dutifully reflects the growing nationalist influence in daily life, showing war films during the conflict with Croatia two years ago and, more recently, domestic soap operas with a discernibly Serbian nationalist slant in the dialogue and jokes.

Yet only one new play, "Dark is the Night" by Alexander Popovic,

Serbia's best-known playwright, takes the war for its subject. But for people who want to forget the grimness of daily life in the Serbian capital, there are comedies, classics and musicals - Fiddler on the Roof and Some Like it Hot are this season's hits.

"The Girl with Purple Hair", inspired by a short story of Ivo Andric, the former Yugoslavia's Nobel prize-winning novelist, touches indirectly on current issues. Ms Vida Ognjenovic, who wrote and directed the piece, says: "I wanted to write something that was relevant to our problems, there was no question about that. Even so, it had to be put in

context and given some distance."

Financial constraints mean that sets are minimal and costumes modest in Serbian theatre productions. The costumes for "Girl with Purple Hair" were made from scraps of material which were collected from a leather factory because the Belgrade municipal theatre, which staged the play, is close to bankruptcy.

Concert tickets are also in short supply, although more than 150 of Belgrade's leading orchestral musicians have left the country in the past two years.

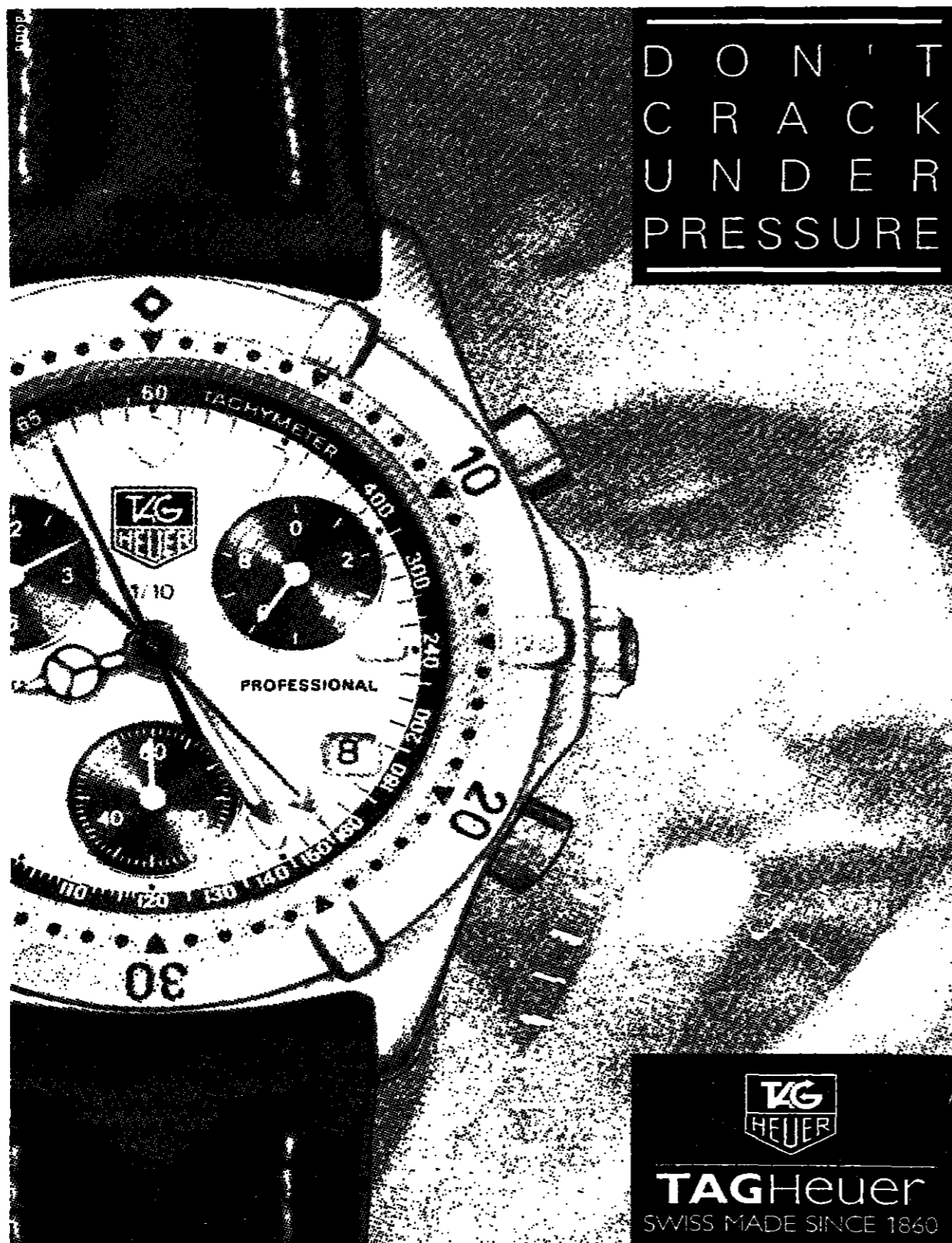
While there is no official censorship, the Socialist party of President

Slobodan Milosevic keeps a watchful eye on cultural activity.

The National Theatre, the umbrella for the former Yugoslavia's leading theatre, ballet and opera companies, was placed under new management in 1992 after Ms Ognjenovic, then its artistic director, allowed Mr Vuk Draskovic, the democratic opposition leader, to address his supporters from its balcony in an anti-government demonstration.

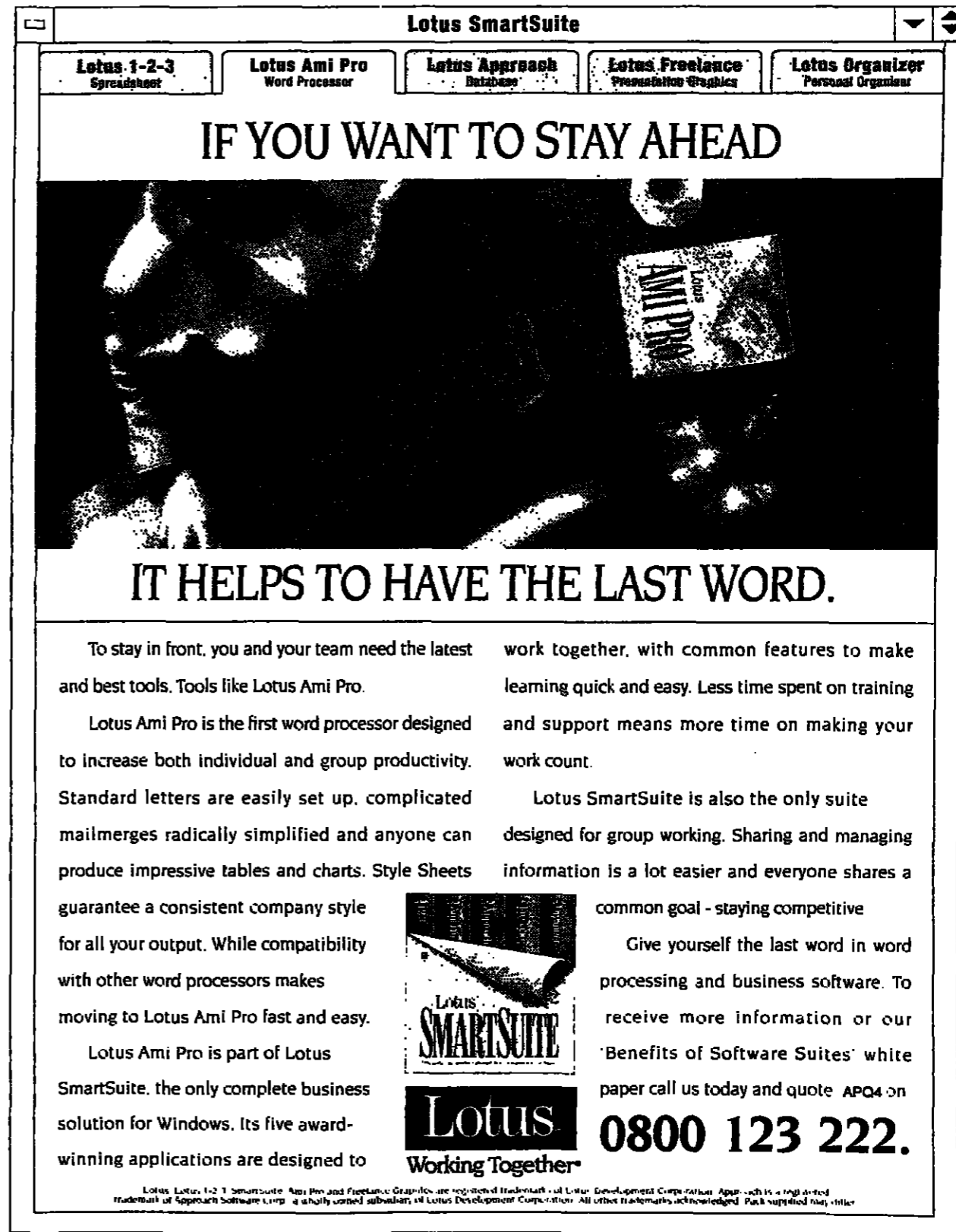
When the municipal theatre staged a new play about St Sava, Serbia's patron saint, which implied he had been a spoiled medieval playboy, nationalist demonstrators disrupted the opening night. The play was not performed again.

**THE FINANCIAL TIMES**  
Published by The Financial Times (Europe) GmbH, Nischengasse 3, 60318 Frankfurt am Main, Germany. Telephone: +49 69 154 830. Fax: +49 69 296461. Telex: 416193. Registered in Frankfurt by J. Walter Brand, Wilhelm J. Brand, Colin A. Kennedy as Geschäftsführer and in London by David C.M. Bell and Alan C. Miller. Printer: DVM Druck-Vertrieb und Marketing GmbH, Adminal-Rosenhohl, Strasse 16, 63303 Neu-Isenburg (owned by Haffner International).  
Responsible Editor: Richard Lambert, c/o The Financial Times Limited.  
Number One Southwark Bridge, London SE1 9SU, UK. Shareholders of The Financial Times (Europe) GmbH are The Financial Times (Europe) Ltd, London and F.T. (Germany) Advertising Ltd, London. Shareholders of the above mentioned two companies are: The Financial Times Limited, Number One Southwark Bridge, London SE1 9SU. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.  
**FRANCE**  
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75004 Paris Cedex 01. Telephone (01) 4297-0621. Fax (01) 4297-0623. Printer: S.A. Nord Edito, 1521 Rue de Caen, F-93100 Rosny-sous-Bois. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.  
**DENMARK**  
Financial Times (Scandinavia) Ltd, Vindmøllevej 42A, DK-1161 Copenhagen K. Telephone 33 13 44 41, Fax 33 33 53 53.



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## EUROPEAN NEWS DIGEST

## German public service workers in token strikes

Several thousand German public service workers took part in token strikes yesterday, in a bid to keep up pressure for a new pay offer. The workers are calling for a 4 per cent pay rise to match inflation. The OTV public sector trade union has rejected a pay freeze, but there were hints yesterday that a low wage award might be combined with measures to secure jobs, as in the weekend agreement reached by engineering workers. Mr Heinz Schlusser, finance minister of North Rhine-Westphalia and chief negotiator on behalf of the 16 federal states, said a 2 per cent pay award from next January 1 might be possible - ensuring a pay freeze in 1994. The union is seeking a deal on shorter working hours, as an alternative to redundancies in the face of public service budget cuts. But it wants 50 per cent compensation for the loss of earnings, which would push up hourly wage rates, although cutting overall wages. The employers' side is insisting on a pay freeze, further cuts in fringe benefits, and improved working flexibility. Talks involving 3.5m public sector workers re-open on Wednesday. *QP Bonn*

## Russia-Ukraine gas row talks

Russian and Ukrainian officials are to meet in Moscow tomorrow to try to settle a dispute over gas supplies to Ukraine which has strained relations between the two states and raised fears over the security of Russian gas supplies to western Europe. Gazprom, the Russian monopoly supplier of gas, said yesterday it would maintain the present level of supplies to Ukraine, of between 50m and 80m cu metres a day. This is enough to keep houses heated, but not enough for industry. Mr Mykhailo Kovalko, head of the state committee on oil and gas, said Ukraine was distributing some 200m cu metres a day, but the extra on top of the Russian supplies was coming largely from storage. The dispute is over an unpaid bill claimed by Gazprom to be running at Rbl1,500m. *JL Moscow*

## EC moves on night work

The European Commission yesterday threatened Belgium, France, Greece, Italy and Portugal with legal action over their restrictions on night work for women when a ban did not exist on night work by men. Mr Padraig Flynn, EU social affairs commissioner, said the Commission believed the countries' legislation on night work went against the EU's policy on equal employment. If the governments do not comply, it will take them to the European Court of Justice. *GT Brussels*

## Moldovans reject Romania tie

Moldovans overwhelmingly rejected a 50-year-old nationalist aspiration to reunite with Romania in a national plebiscite on Sunday. Moldovans were asked whether they supported "an independent Moldova within its 1990 borders, which maintains neutrality, establishes ties with other nations and provides equal rights for all citizens." Of the two-thirds of the electorate who voted, 90 per cent voted Yes to the question. *JB Kiev*

## Cabinet reshuffle in Bucharest

Romania's ruling Party of Social Democracy has announced a cabinet reshuffle to boost support for its 16-month-old minority government. It replaced the ministers of justice and transport with independent professionals, appointed one of its vice-presidents to the interior ministry, and replaced Gen Nicolae Spiroiu, the defence minister, with a civilian. *VM Bucharest*

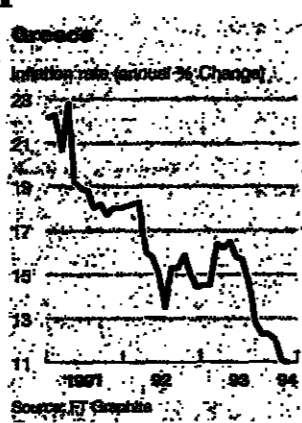
## Plan for Bosphorus tunnel

Turkey is considering a tunnel to link Asia and Europe under the Bosphorus to ease Istanbul's traffic problems. It would supplement Istanbul's two suspension bridges over the Bosphorus, which are badly congested in rush hours. *Reuter*

## ECONOMIC WATCH

## Greek consumer price rises slow

The Greek consumer price index was up by just 0.2 per cent in February, from the previous month, bringing the annual rate down to 11 per cent, from 11.1 per cent in January. The slight reduction was due to a fall in the price of clothing, shoes and consumer durables in the winter sales. However, in 1993, the consumer price index rose by 0.3 per cent between January and February. Inflation in Greece fell to 12.1 per cent in 1993 from 14.4 per cent in 1992 and is expected to fall below 10 per cent in this year.



■ Provisional new passenger car registrations in the European Union fell by an estimated 1.8 per cent in February compared with a year earlier. The strongest growth was in Denmark, where registrations rose by 56.5 per cent. The greatest decline was in Greece, where registrations fell by 34.5 per cent.

■ German wholesale sales in January climbed a real 4 per cent from a year earlier and rose a seasonally and calendar-adjusted 1 per cent from December.

■ The European Union issued its first figures on renewable energy production, which was equivalent to 43.6m tonnes of oil in 1992, or 6.7 per cent of EU primary energy production.

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## Brittan opens race to succeed Delors

Lionel Barber on an undeclared campaign to become the next president of the European Commission

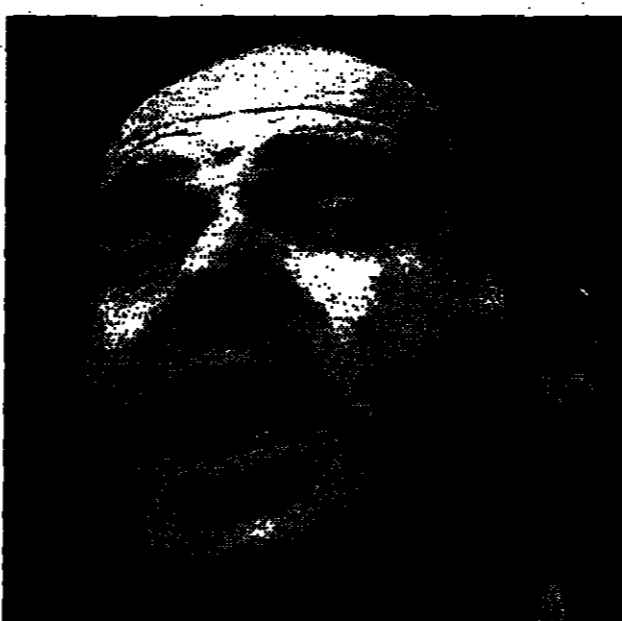
The official word in Brussels is that Sir Leon Brittan is not running a campaign to become the next president of the European Commission.

This may surprise those watching the EU chief trade negotiator's *tour des capitales* in 1994, a combination of private hints about presidential ambitions with a torrent of speeches on the future of Europe.

Since the New Year, Sir Leon has visited Athens, Dublin, The Hague, London, Madrid, and Rome. Copenhagen and Lisbon follow soon. Paris and Bonn are being held back until nearer the European summit in Corfu in June, when the successor to Mr Jacques Delors will be chosen. A book setting out Sir Leon's vision of Europe just happens to be coming out at the end of the month.

Convention dictates that people do not campaign for the top executive post in Brussels, a job which is within the gift of the heads of governments of the 12, not the people. Mr Delors himself was a dark horse in 1989, winning the race only after Mrs Margaret Thatcher, then UK prime minister, reportedly vetoed the first French choice, Mr Claude Cheysson.

The Brittan campaign has



Brittan: private hints and public declarations on Europe

broken diplomatic precedent, but it has opened up the contest. A year ago, Mr Rudi Lubbers, Dutch prime minister, looked certain to succeed Mr Delors on the grounds of 12 years experience and small-state credentials.

This last asset is perhaps the most important. The Commission presidency usually alters

his own candidacy by setting out his own stall, starting with the conclusion of the Uruguay Round of trade talks last December in which he played a star role. "The Gatt deal showed that Leon could deliver politically," says a close aide.

So how many votes can Sir Leon count? Possibly one, the British government; and that is by no means an advantage because the single most important challenge for the senior British commissioner in Brussels is to convince the heads of government that he is not a stalking horse for the UK government and its minimalist vision of European integration.

However, the British might be happy with a free-trading Dutchman at the helm with Sir Leon as trade negotiator. To overcome the handicap of nationality, Sir Leon has put distance between himself and the government of Mr John Major. He supports the idea of a common European foreign and security policy. He has taken to chastising the US in public for not living up to its free trade rhetoric. He has warned the UK on several occasions to take seriously the prospect of a "hard-core" of members states moving to European monetary union.

Most striking is his campaign to cultivate the French.

For although there are plenty of people in Paris ready to demonise Sir Leon as an Anglo-Saxon free marketeer, there are others who are drawn by his charm, intelligence and panache.

Despite clashes with the French government in the Gatt talks, Sir Leon left enough "wiggle room" to secure a better deal on agriculture from the US, and to avoid opening up the Europe film market to Hollywood. He was also smart enough to let the government of French prime minister Edouard Balladur take the credit.

But Mr Balladur himself has refused to be drawn on a successor to Mr Delors. Diplomats in Brussels suggest Paris would like to cut the Commission down to size, a recognition that Mr Delors, after almost 10 years in power, was becoming too big for his boots. By contrast, Sir Leon is preaching the message of Commission restraint.

The crucial vote probably lies with Germany. There are persistent rumours that Chancellor Helmut Kohl is not as keen on Mr Lubbers as first thought, despite his fellow Christian Democrat credentials and his long presence on the European stage.

Last year, Sir Leon raised his

candidacy privately with the German Chancellor; he was rebuffed. Also, the Brittan camp suggests that Mr Klaus Kinkel, German foreign minister, favours Sir Leon's candidacy. Mr Kinkel is said to have appreciated Sir Leon's success in balancing his independence as the EU's trade negotiator with the need to prevent Franco-German differences over trade from splitting the EU.

Sir Leon is also paying attention to the southern states, knowing that their preferred candidate - Spain's prime minister Felipe Gonzalez - appears to have ruled himself out. His strongest card is that none of the "Club Med" members are likely to be enthusiastic about a northern liberal like Mr Lubbers.

Whatever the outcome - and the odds still look to favour Mr Lubbers - Sir Leon's secondary agenda may be simply to convert his new political capital into a big international job other than the presidency of the Commission.

At the least, he has avoided the mistake of his last bid for more power in Brussels, an attempt to become one of two vice-presidents under Mr Delors. Two commissioners say he never bothered to ask for their vote, and subsequently did not even make the run-off.

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# China's reforms 'weakened centre'

By Alexander Nicoll,  
Asia Editor

China's economic reforms have caused a dangerous decentralisation of power and contributed to social decay and rising crime, a paper published by the London-based International Institute for Strategic Studies says.

"To borrow the jargon of the European Community, Beijing first adopted 'subsidiarity' as a means to achieve economic growth, and now finds that once power has been transferred to the most logical and efficient level, it is hard to retrieve."

The paper, "China Changes Shape: Regionalism and Foreign Policy", written by Mr Gerald Segal, an IISD senior fellow, argues other countries need to recognise the decentralisation of power and develop policies for dealing with regional powers in China.

But it "neither predicts nor advocates" China's dissolution. "Such dramatic dislocation would damage the prosperity of a fifth of mankind, wreck East Asian stability and lead to massive migration."

"Power has been devolved to a range of actors, including township and village enterprises, individuals and even

overseas Chinese and other outsiders. Thus there is no simple struggle for control between centre and province."

The paper traces the impact on Beijing of the shift of decision-making power to the provinces. Revenue to the centre as a proportion of the economy has fallen sharply as richer provinces have gained muscle to rebuff successive attempts to redress the balance; the latest is now under way.

At the same time, the central government failed to develop financial institutions which could exercise macroeconomic control. "Beijing could no longer impose austerity measures

on the national economy, and rich provinces could raise funds from local investment and abroad."

Provinces increasingly squabble among themselves on economic issues, sometimes seeking to exclude each other's products from their markets, with Beijing apparently powerless to prevent such internal protectionism.

Regionalism, the paper argues, could become a more serious political problem following the death of Deng Xiaoping. China's 86-year-old paramount leader.

"Perhaps the one certain thing about the succession to

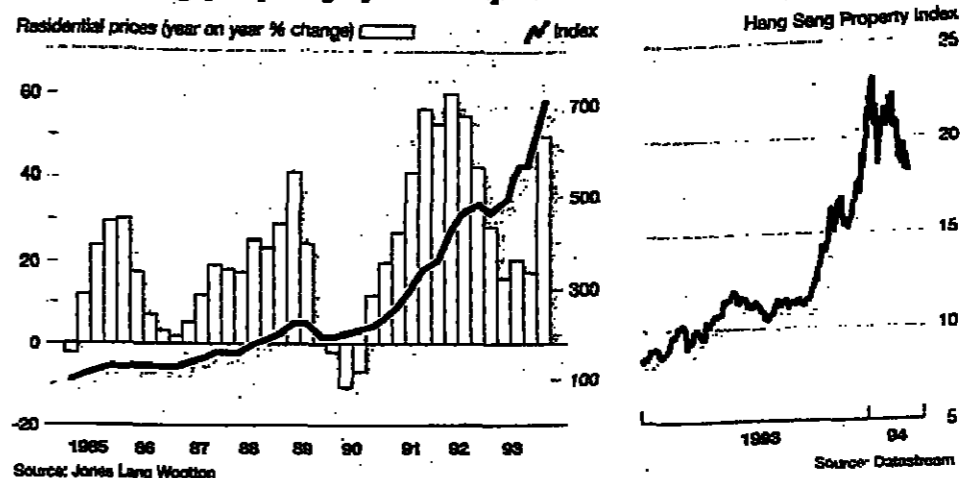
Deng is that no successor will be able to do such a strong mantle of leadership."

Mr Segal finds a "fin-de-siècle feeling" of which the result is social decay, corruption, criminal activity and "the increasing prominence of secret societies and cult practices."

Some of these features would be diminished if a strong leader were to emerge.

Central control of the People's Liberation Army appears secure, but it is increasingly involved in money-making ventures closely linked to the development of individual regions.

## Hong Kong property: prices up but shares down



## Fear of heights grips HK property market

Simon Holberton on investor concern but no apparent let-up in fast-rising prices

Ever since Mr Robert Ng, the youthful chairman of Sino Land, a Hong Kong property developer, paid HK\$4.4bn for two pieces of land for residential development in the New Territories last week, market observers have had the feeling they had seen it all before.

In September and October 1993 Mr Ng was one of the biggest players on the colony's futures exchange. It seemed he had the Midas touch. Black Monday came and Mr Ng - and many others - was all but wiped out.

Mr Ng has returned to ride Hong Kong's bull market in residential and commercial property. At the luxury end of the residential market, prices have risen 350 per cent since 1989; for commercial property, values have increased by 150 per cent over the same period.

Sino Land's purchase of the two sites at prices 20 to 30 per cent above expectations suggests to some that Hong Kong's property market is becoming overheated.

"The higher the prices paid the more you have to think of risk," said Mr Archie Hart, head of research at Crosby Securities, a local Hong Kong brokerage. "The Sino deal makes sense if you think interest rates will continue to remain low, income growth will remain strong and there will be no crises. In a perfect world it looks like a clever deal, but is the world perfect?"

Since the US Federal Reserve Board raised short-term interest rates last month Hong Kong's stock market has been trading uneasily in anticipation of a rise in Hong Kong interest rates. Analysts believe it is only a matter of time before Hong Kong's interest rates follow those in the US because the colony's currency is tied to the dollar.

Such fears have already taken their toll on share prices; the Hang Seng Index, having touched 12,000 earlier this year, is now hovering around 10,000. Last month, Hong Kong had the worst performing stock

market of the 22 large markets surveyed by Morgan Stanley, the Wall Street investment firm. Since the beginning of the year the Hang Seng Index has fallen by 15.4 per cent.

Investors have been particularly savage in marking down property and bank shares. Since the beginning of the year the property sub-index of the Hang Seng Index has fallen by 17 per cent; and the finance sub-index has fallen 15 per cent.

The weakness in property shares has been enough to cause companies to postpone planned capital issues. Great Eagle, one of Hong Kong's leading property stocks, has postponed a HK\$3bn (£274m) flotation of a subsidiary. The underwriters doubted whether there would be sufficient interest in the deal.

Investors have not been the only ones to be concerned about banks' exposure to the property market. The Hong Kong Monetary Authority (HKMA), the colony's quasi-central bank, which has been tracking banks' exposure to the property market for more than two years, is also concerned.

Recent data show that by the end of last year property lending by Hong Kong banks accounted for nearly 38 per cent of bank loans made for use in the colony. Overall, lending for property rose by 18.4 per cent within that total, well below the average of 33.000 that was typical in the latter half of the 1980s.

The end-of-year vacancy rate for residential property had declined to 3.9 per cent from 4.2 per cent in 1992, suggesting that Hong Kong entered 1994 with a tight market. Relief for Hong Kong's home buyer, however, seems some way off with the forecast completion of 33,000 flats this year and 31,600 in 1995.

Mr Hart of Crosby said it was difficult to judge accurately at what point in the residential property cycle Hong Kong currently was. "I believe we are nearer to the top of the cycle than the bottom."

gross domestic product is growing.

In general, he said, banks should aim to keep their total exposure to the property market at around 40 per cent of their loans in Hong Kong. Those whose lending exceeds 40 per cent "should consider how that percentage can be stabilised and if necessary reduced."

Mr Carse said his letter was intended as general guidance for banks. A large part of bank lending goes to property "and it keeps going up and up", he said. But he added: "I am not worried about a collapse in the property market; it is still underpinned by strong demand."

This view was echoed by Mr Paul Selway-Swift, general manager for Hong Kong and China with Hongkong and Shanghai Bank. He said the bank was comfortable with its exposure to residential and commercial property. But he was less certain about prices being paid for development land. "Only time will tell if recent prices paid for land prove to be reasonable or far too high," he said.

The supply and demand outlook for residential property suggests that prices are likely to remain under upward pressure. Hong Kong's developers released on to the market 27,570 flats last year, 10 per cent fewer than forecast and well below the average of 33,000 that was typical in the latter half of the 1980s.

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## Singapore sentence upsets US residents

By Kieran Cooke  
in Kuala Lumpur

Singapore and US authorities have become involved in a heated debate over a caning and jail sentence handed out to a US teenager.

Michael Fay, 18, was convicted last week of spray painting cars and being in possession of Singapore flags and road signs. The teenager, a student at the Singapore American school when the offences were committed, was sentenced to six strokes of the rotan (a heavy cane), four months jail and fined \$83,500 (£1,480).

Mr Ralph Boyce, acting US ambassador in Singapore, said there was a large discrepancy between offence and punishment. Mr Boyce said the paint was removed from the cars with thinner. However "caning leaves permanent scars" said the diplomat. "In addition, the accused is a teenager and this is his first offence."

Fay's stepfather is the Singapore-based regional executive of Federal Express, the US courier company. The American Chamber of Commerce in Singapore said it could not understand how the government could condone the permanent scarring of any 18 year old - American or Singaporean - for such an offence.

"It is impossible to predict how this will affect American business activity but it is likely to cast a cloud over Singapore's international reputation," said the chamber. The US is the biggest investor in Singapore.

Singapore's ministry of home affairs said that unlike some other societies which may tolerate acts of vandalism, Singapore had its own standards of social order as reflected in its laws.

## HK banks reject interest criticism

Banks in Hong Kong yesterday hit back at a damning report from the Consumer Council - which claimed the colony's cartel on interest rates helped banks earn an extra HK\$5bn (£434m) in 1991 to the detriment of small depositors - by insisting the 30-year interest rate Agreement creates stability and that banks themselves lose a total of HK\$2.7bn serving the small savings customer. Louise Lucas writes from Hong Kong.

The Hong Kong Association of Banks said the Interest Rate Agreement fostered stability by keeping interest rates in line with market forces and the government's economic policy - a need further underlined by the peg with the US dollar, which means Hong Kong interest rates must track those set by the US. However, the agreement pre-dates the peg by some 18 years.

## Bophuthatswana spurns election

The cabinet of Bophuthatswana, the nominally independent black homeland which forms part of South Africa's right-wing Freedom Alliance, said yesterday it would not register for April's all-race elections, joining the white right wing in boycotting the poll. Patti Waldmeir reports from Johannesburg.

Zulu Chief Mangosuthu Buthelezi, whose Inkatha Freedom party has registered for the poll, said yesterday his participation was far from guaranteed, as it depended on the result of international mediation of the country's constitutional dispute. He said the poll should be delayed, a demand which the African National Congress adamantly rejects.

Bophuthatswana's cabinet decided against registration yesterday, and though it said a final decision would be made by the homeland parliament, the assembly is unlikely to go against the cabinet's wishes.



Emanuel and Hana Lopez outside Beit Hadassa settlement in Hebron yesterday where they were apartment hunting. They are ignoring warnings from Islamic militants and the Israeli government that Jews may be evacuated after the Hebron massacre.

## UK investors lead Manila inflow

By Jose Galang in Manila

British investors led the flow of new foreign direct investment into the Philippines last year, according to government data released at the weekend.

Of the total foreign investments of \$327.9m (£182m) registered in 1993, \$108.6m or 33 per cent was from British investors.

Early last year, Shell Petroleum, the Anglo-Dutch energy

group, increased its investment in its Philippine oil refining and marketing subsidiary. It was from this that other companies in Britain had apparently taken their cue, officials said.

British investments in 1993 exceeded those from Japan and the US, traditionally the largest sources of foreign capital for the Philippines.

Investments from Japan totalled \$46.2m, down 70 per

cent from the year before, while the US total reached \$36.6m, some 37 per cent lower than in the year before.

Foreign investments recorded in 1993 represented a slight decline from \$328.01m in 1992, according to data released by the Bangko Sentral, the country's central monetary authority.

It was the second consecutive annual decline. In 1992 the level was off 21

per cent from 1991's \$415.3m.

● The National Statistics Office announced that the average year-on-year inflation rate in February was 10.5 per cent.

The highest in two years, the month's accelerated inflation rate was fuelled by higher petroleum product prices and power rates.

Annual average inflation in 1993 was 7.9 per cent; forecasts for 1994 point to 8-10 per cent.

## Khazakh election balance 'tilted'

By Steve LeVine in Alma Ata

Parliamentary elections yesterday in Kazakhstan appear heavily weighted to strengthen the powers of Mr Nursultan Nazarbayev, the president, western diplomats and local officials said.

Analysts believe the pro-Nazarbayev bill of the 754-name candidates' list was produced by national and regional government officials who inten-

tionally blocked many prospective candidates and political parties including leaders of independent trade unions, Russian and Kazakh national groups and journalists, from registering for the elections.

It was unclear, however, whether the strong-willed Mr Nazarbayev would emerge with the kind of majority he would need to enact his moderately reformist economic programme.

The government said the turnout in most regions exceeded the 50 per cent mark needed to validate the elections. Vote counting will be completed on Thursday.

The elections for a 177-member parliament, Kazakhstan's first since the Soviet collapse two years ago, seemed certain at least to weaken some of the regional and national bureaucratic forces that have so far resisted him.

But they also appeared to inflame relations with the republic's ethnic Russian population and with Moscow because of a perceived government attempt to produce a parliament with more Kazakhs and fewer ethnic Russians.

Critics in Kazakhstan say that while Kazakhs outnumber ethnic Russians 43 per cent to 36 per cent, on the list of candidates Kazakhs had a majority of 75 per cent to 18 per cent.

## Japan companies to slash capital spending

By William Dawkins in Tokyo

Japanese companies are planning to cut capital spending even more steeply this year than last, leading to the longest investment decline in the post-war period.

A respected survey of corporate borrowing by the Industrial Bank of Japan predicted that capital investment will fall by 6.1 per cent in the year to March 1995. Japan's economic gloom has for the first time spread from manufacturing into service industries, according to the survey of 3,688 IBJ clients.

This comes after a 5.8 per cent decline in the current fiscal year, already the biggest since the IBJ started taking the survey in 1963. The bank found "extreme bearishness" in most sectors for the first time in this recession.

Service companies say capital spending will fall 0.4 per cent this

year and 4.6 per cent in the coming 12 months. Manufacturers expect spending to fall 17.7 per cent in the current year and 10.3 per cent next.

This suggests that recent increases in industrial machinery orders, one of the few bright spots in the economic gloom, are only a weak indicator of recovery. Machinery orders rose 31.8 per cent in January from the same month the previous year, the third monthly increase running, the Japan Society of Industrial Machinery Manufacturers said yesterday.

Corporate demand for credit continues to be weak, according to separate figures from the federation of bankers' associations of Japan. Outstanding loans by Japan's 11 city banks fell 0.7 per cent last month, from February 1993, for the second month running. The lending balance dipped in January for the first time since the federation began collecting records 40 years ago.

## Construction industry inquiry widens Moves afoot to lift politician's immunity

By William Dawkins

Japanese public prosecutors are considering whether to lift a former construction minister's parliamentary immunity after his refusal to answer questions on alleged bribery.

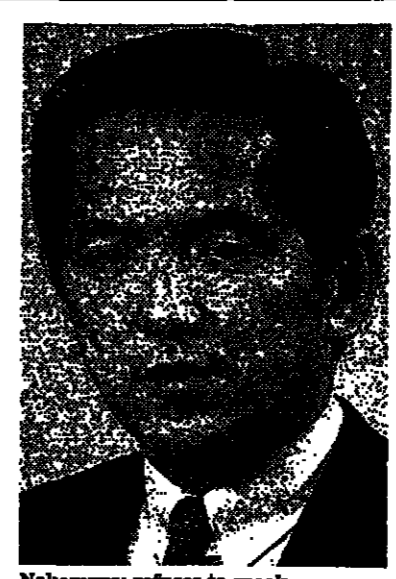
Mr Kishiro Nakamura, a lower house member of the opposition Liberal Democratic Party, yesterday defied investigators seeking fresh evidence in a widening inquiry into corruption in the building industry.

This will test whether investigators are determined to arrest Mr Nakamura. So far, more than 30 construction company executives and local politicians have been arrested in what has become the biggest corruption scandal since the second world war. But the prosecutors have so far stopped short of seizing a national

politician or bureaucrat.

To obtain Mr Nakamura's arrest, the public prosecutor's office would have to ask parliament's permission to lift his immunity, a tactic last employed 26 years ago. Prosecutors want to question Mr Nakamura about allegations that while construction minister he had received ¥10m (£64,100) from a leading contractor in return for persuading the Fair Trade Commission to drop a 1991 investigation into bid rigging.

The FTC subsequently announced it would file no complaints against any of the 58 companies involved, fuelling US anger over covert barriers to foreign competition in the building industry. This is the latest sign the purge against corruption is being stepped up, following the appointment of a new prosecutor-general, Mr



Nakamura: refuses to speak

Yusuke Yoshinaga, head case officer on the Lockheed scandals of the 1970s. His office announced yesterday it had assigned seven extra staff to the construction case, enlarging the team to 35.

## Probe into share trade allegations

By Emiko Terazono in Tokyo

Japanese financial authorities have started an investigation into suspected insider trading by employees of a leading drug company based in western Japan.

Ten officials of Nippon Shoji, an Osaka-based drug manufacturer and wholesaler listed on the Osaka Securities Exchange's second section, are being investigated by the exchange over alleged sales of 50,000 shares in the company, before the Health and Welfare Ministry announced the deaths of three patients using the company's herpes and shingles drug last October.

The executives are alleged to have gained ¥150m (£981,000) by selling on information of the deaths, three days ahead of the ministry's announcement.

## Cambodia acts to attract 'good' foreign investment

By Iain Simpson in Phnom Penh

The Cambodian government has completed a draft investment law which it hopes will help its efforts to change the country's image from the home of the killing fields to an investment opportunity.

The law, which will be presented to donor countries at an aid conference in Tokyo later this week, provides a wide range of incentives to what Mr Sam Rainsy, finance minister, calls good investors. "What I hope is that the good investors will drive out the bad," he said.

Mr Rainsy, who has acquired a reputation as a fighter because of his outspoken criticism of his predecessors, wants to encourage investors interested in the long-term development of Cambodia. He wants to keep out those who are only interested in making a quick profit and then leaving.

Many of his criticisms are directed against Thai investors, who have gained a reputation for short-term interest. Mr Rainsy complains about a Thai "mafia" operating in Cambodia, which he says is corrupt deals with the old government.

Mr Rainsy insists that he is not saying good investment depends on the origin of the investor: "I don't want to say that good or bad depends on the nationality. So far, we have seen many bad investors from neighbouring countries and many good investors from Europe and Japan, but I can give some examples of bad investors coming even from Europe and America."

Nonetheless, he has made bitter enemies among the Thai community, especially in one company which he says is the centre of the Thai "mafia" in Cambodia. Mr

Rainsy alleges that he is the subject of at least one murder contract. He says his efforts to improve the investment environment will soon make Cambodia more of a magnet for foreign investors than Vietnam: "People talk a lot about investment in Vietnam but in five or six years, Vietnam has attracted only \$1bn in foreign domestic investment, which is very little compared to its size."

"In Vietnam, there are many problems for foreign investors," he says. "First of all, Vietnam is still a communist country, with no political freedom. In a country where

there's no political freedom, it doesn't create the right environment for the private sector to prosper."

So far, Cambodia has attracted very little foreign investment and the projects which have been started have largely been in Mr Rainsy's "bad" category, buying up the country's natural resources for sale at a quick profit. There is also no sign of foreign companies setting up offices in Cambodia at anything like the speed they are arriving in Vietnam.

Nevertheless, given three to five years, the hyperactive finance minister insists he could turn the econ-

omy around. Some of his hopes rest on this week's donors meeting. So far, the international community has poured nearly \$3bn (£200m) into Cambodia - including one of the largest United Nations operations the world has ever seen.

Mr Rainsy believes the new government will show the world that its investment has been worthwhile. "We will show the international community that Cambodia is worth helping. In order to show that, we have to demonstrate our will and our ability to help ourselves first," he said.

# Sleeping in Business Class.

## A brief history.



1968



1978



1982



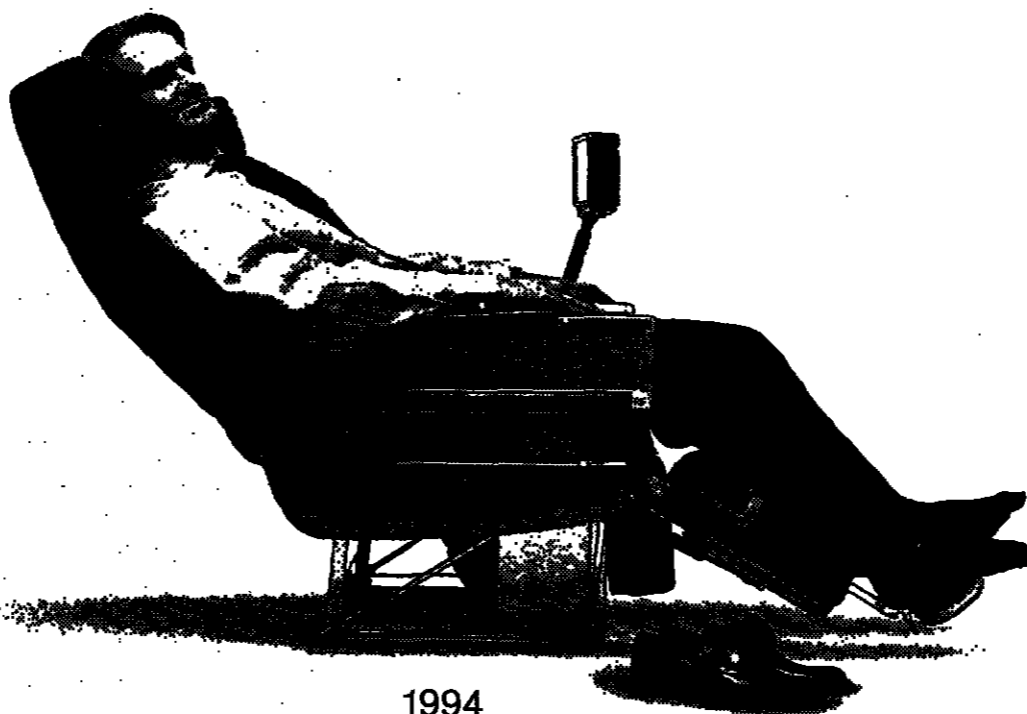
1985



1989



1990



1994

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## NEWS: THE AMERICAS

# Mexican frontrunner strives to make mark

By Damian Fraser  
in Mexico City

Mr Luis Donaldo Colosio, the presidential candidate of Mexico's ruling Institutional Revolutionary party, has begun the difficult task of distancing himself from the present incumbent, President Carlos Salinas.

Mr Colosio, who was selected last November by Mr Salinas to be the party's candidate in August's election, chose to dwell on his differences with current administration policy on the 65th anniversary of the PRI's hold on power on Sunday.

"The only continuity that I offer is change," claimed Mr Colosio, who has previously been so closely identified with the current president that he is known as "Mr Salinas with hair".

For the first time Mr Colosio seemed to criticise the president. "We know that the origin of many of our ills lies in an excessive concentration of power, a concentration that leads to wrong decisions, the monopoly of initiatives, abuses and excesses," he said. "The reform of government will require a president who is subject - strictly - to the limits of our republican and democratic constitution."

PRI presidential candidates traditionally move away from the incumbent as the election draws closer. Even more than his predecessors, Mr Colosio is under pressure to draw up his own platform, partly because



Luis Donaldo Colosio: offers continuity in change

of a general perception that he is a weak candidate.

Mr Colosio's campaign has suffered from the peasant uprising in the state of Chiapas, and from the prominent role played by Mr Manuel Camacho in peace negotiations between the rebels and government.

Mr Camacho, who had been Mr Colosio's rival for the presidential nomination, may still launch himself as a candidate of one of the opposition parties. While this is unlikely, he may decide to run if support for Mr Colosio declines. A Mori poll gives Mr Colosio 37 per cent public support.

## Brock to run again for US Senate

By George Graham

Mr Bill Brock, former US trade representative, announced yesterday he would challenge Senator Paul Sarbanes of Maryland in November's mid-term elections.

Mr Brock, who served one term as senator for Tennessee in the 1970s, would, if elected, become the first senator since 1879 to have represented two states in Congress.

Credited with rebuilding the Republican party apparatus after the Watergate debacle as chairman of the Republican National Committee, Mr Brock was appointed US trade representative and later labour secretary by Ronald Reagan.

Mr Sarbanes, who has been expected to take over as chairman of the Senate banking committee after the retirement of Senator Donald Riegle of Michigan, has won more than 60 per cent of the vote in his last two campaigns. His voice has been heard most often on macroeconomic and budgetary issues.

Nevertheless, he maintains a low profile, and could be vulnerable to a Republican challenge.

In Maine, meanwhile, Congresswoman Olympia Snowe, a Republican representing the state's northern congressional district, announced she would run for the Senate seat left empty by the retirement of Senator George Mitchell, the Democratic majority leader.

# Rappers win copyright suit

By George Graham  
in Washington

Rap music won out over country rock yesterday when the Supreme Court decided a landmark copyright lawsuit in favour of rappers 2 Live Crew.

The Court ruled unanimously that 2 Live Crew's raucous version of the 1964 Roy Orbison hit "Oh, Pretty Woman" was a fair parody that could not be blocked by

Acuff-Rose Music, holders of the copyright.

The case, which makes clear for the first time that commercial parody may constitute "fair use" under the copyright laws, has pitted not just rappers, whose music often uses samples of well-known rock hits, but also satirists and free speech advocates against a galaxy of famous song writers.

Mr Luther Campbell, 2 Live Crew's lead singer and song

writer, had originally sought permission to use "Oh, Pretty Woman" and offered to pay royalties to Acuff-Rose. That permission was refused.

Justice David Souter, ruled that it made no difference whether the parody was in good or bad taste. 2 Live Crew used the bass riff of the Orbison original, as well as its first line: "Pretty woman, walking down the street." It continues in a more bawdy vein, how-

ever. More than \$13m in royalty payments was at stake in the case.

The Supreme Court rejected the copyright holder's absolute right to refuse permission for the parody, but it sent the case back to a lower court for further evaluation of how much of the original song was used, and the extent to which the parody might harm the market for the original.

# NY spurns bizarre toilet plan

By Richard Tomkins  
in New York

There is some good news and some bad news for those feeling the call of nature on the streets of New York.

The good news is that the city council has come up with an ingenious, if bizarre, plan to encourage the private sector to build and operate public toilets in the metropolis. Companies will be allowed to erect two giant advertising pillars for every toilet built, so giving them the opportunity to profit from the advertising revenues they collect.

The bad news is that the scheme has become so mired in controversy that the council last week backed away from full implementation, instead opting for a small-scale experiment that will take at least a year to complete.

New York is notorious for its lack of public lavatories. There used to be hundreds - in parks, public buildings, subway stations and open spaces -

but they became the domain of drug addicts and vagrants who paid for a place to pee by paying for a place to sleep.

Apart from causing inconvenience to New Yorkers and visitors, one side-effect has been intense irritation for proprietors of bars and restaurants

Some require considerable tenacity: the entry for the Mormon visitors' centre in Lincoln Square warns that people wanting to use the rest room are expected to sit through an introductory talk, a videotape presentation and a question-and-answer session lasting 40 minutes.

The city council's proposed

The originality of the scheme, however, has failed to impress New Yorkers. Community groups and local politicians have reacted with horror at the proposed afforestation of the city with 400 pillars, while the private sector is concerned the revenues from two pillars per toilet will not be enough for them to make a profit.

Opting for caution, the city council has cut the number of toilets to 100 and the height of the pillars to 17ft. But even these may never appear, because the council has decided not to go ahead without first inviting would-be operators to conduct an experiment with a maximum of three toilets and six pillars each.

Given the level of public hostility to the pillars, the experiment seems unlikely to win many converts. If it fails, the city will either have to find the money for the toilets out of its own resources, or, more likely given the continuing budgetary constraints, remain a lavatorial wilderness.

## City scheme to end lavatorial wilderness bogged down

who find their toilets performing a public function. Many express their annoyance with strident warning notices, such as: "Bathrooms are for the use of today's customers only."

The shortage has also spawned an unusual literary sub-genre. A widely available book called "Where To Go: A Guide To Manhattan's Toilets" lists little-known lavatories that can be used without embarrassment.

remedy was a plan to award a private sector franchise for the construction and operation of 200 automatic, self-cleaning public toilets similar to the ones that have become widespread in London. Admission would cost 25 cents, but the operators' main source of income would be the revenues from Paris-style advertising pillars measuring 22ft 6ins high and 6ft 6ins in diameter - two of them for every toilet.

# Killings cloud El Salvador poll

In the run-up to much-awaited national elections in El Salvador this month, the political violence which was a feature of the country's past continues to cast a cloud over its future.

The vote on March 20 for presidential, parliamentary, and municipal offices has been called the "election of the century," as it will include candidates from conservatives to communists for the first time in more than 60 years.

But dozens of killings, particularly of former left-wing guerrillas, and accusations that the government is failing to implement fully a peace agreement signed with guerrillas in January 1992, after 12 years of civil war, have led to concerns over whether the elections will consolidate democracy.

Human rights groups in El Salvador say the killings have had a chilling effect on the campaign of the former left-wing guerrillas of the Farabundo Martí National Liberation Front (FMLN), and the left in general.

The most recent report by the UN's human rights monitoring division, released at the end of December, pointed to a "grave deterioration" in the observance of human rights.

FMLN leaders have complained that the government has not met its commitment to provide land to former fighters, and has tolerated the re-emer-

## Democracy is threatened as a nation struggles to escape its past, writes Edward Orlebar

gence of right-wing death squads.

"People are worried about what is going to happen once Ousaul [the United Nations monitoring group] leaves - that the violations will return," says Mr Hector Dada, a political analyst.

The front-runner for President is Mr Armando Calderon Sol of the right-wing governing Nationalist Republican Alliance party, who comfortably leads Mr Ruben Zamora, leader of an alliance between the Democratic Convergence, a centre-left umbrella group, and the FMLN.

A distant third is Mr Fidel Chavez Mena of the Christian Democrat party, whose popularity has plummeted as Mr Zamora's has grown. Mr Chavez remains tainted by the failures of a disastrous Christian Democrat administration in the mid-1980s.

But about half of potential voters either remain uncertain about who to vote for or unwilling to state their preference.

Mr Calderon was picked to succeed the current president, Mr Alfredo Cristiani, by the late Mr Roberto D'Aubuisson, a

sponsor of right-wing death squads who founded the party in 1981 to defend the interests of the business and land-owning elite against the perceived advances of communism.

Mr Calderon was formerly a popular mayor of San Salvador.

But he reportedly does not enjoy the full confidence of his party, particularly among modernising businessmen. He lacks the smooth public relations skills of Mr Cristiani.

Mr Calderon has benefited from an expensive government campaign on television proclaiming its achievements, which makes little attempt to distinguish itself from party advertising.

the country's leading opposition figure.

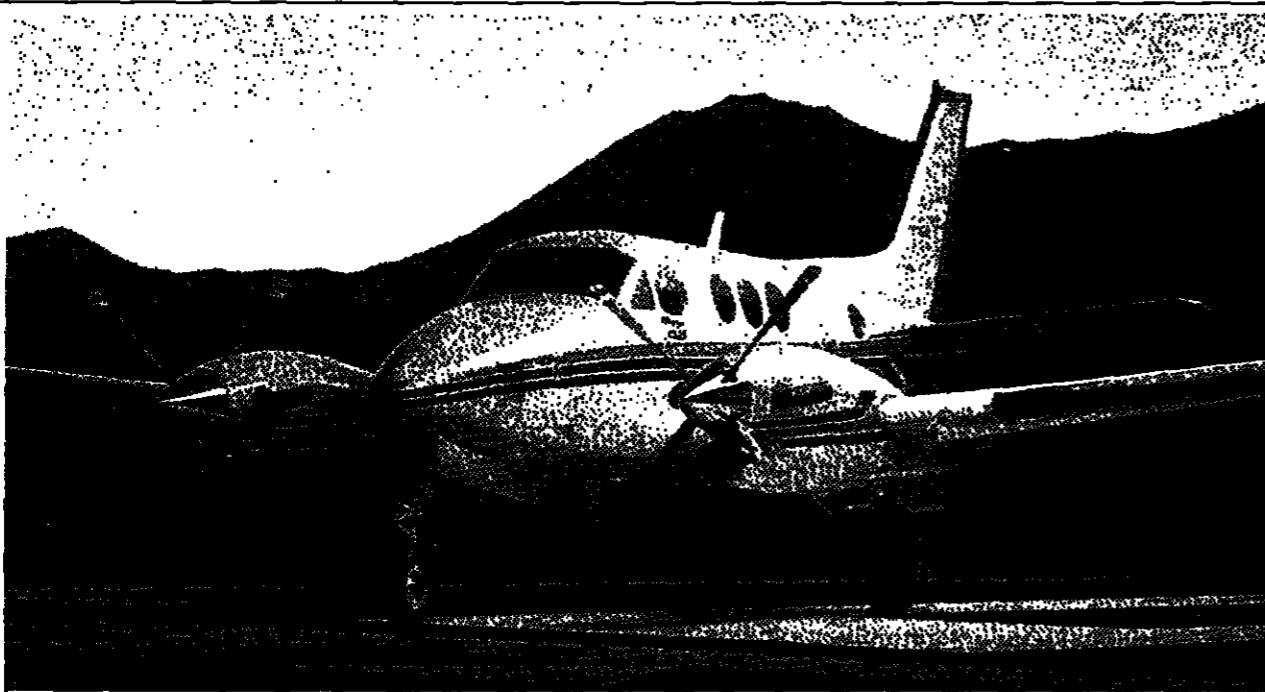
Since becoming a political party last year the FMLN has been racked by internal divisions and has been unable to maintain the cohesion in peace which it achieved during the war.

Senior party officials admit the organisation is likely to split after the election, as some of its member groups have embraced social democracy while others are still ostensibly Marxist.

The end of the war has brought the Salvadoran government considerable foreign aid and soft loans to rebuild infrastructure damaged during the conflict. Last year saw 5 per cent growth, following 4.8 per cent in 1992, the highest rates in more than a decade. The growth was mostly fuelled by a large influx of repatriated capital and external financing.

With inflation down to 12 per cent, record foreign reserves, and one of the lowest foreign debt burdens in the Americas, the economy is relatively good shape although highly dependent on remittances from compatriots in the US, who sent home more than \$800m (\$547.9m) last year.

But Salvadorans are still not sure if the bad old days are really over. As Mr Dada says: "The psychology of terror has not finished."



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The CAA invites suitably qualified companies to examine a detailed functional specification that has been prepared by the CAA and is provided with the Request for Proposal document and put forward proposals to supply and install stand alone P.C. based simulators at various locations around Australia.

Responses to the Request for Proposal C94711 are required by 2.00pm EST on Thursday 14 April 1994 and must be lodged at:

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Responses shall not be accepted at any other location.

The Request for Proposal document or additional information is available on request from Mr Brian Keen on telephone 61-6-2684209 or fax 61-6-2685695.

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## Calls mount in Japan for surplus cuts

By Michio Nakamoto  
in Tokyo

The Kaidanren, Japan's influential business federation, yesterday joined leading businessmen and politicians in urging the government to adopt voluntary targets to reduce Japan's surplus in the medium term.

The move reflects increasing public frustration in Japan over the government's inability to deal with mounting friction with the US.

Among the measures called for by the Kaidanren is the adoption of future targets to cut Japan's current account surplus.

In a paper it said the Japanese government needed to reformulate its US policy as soon as possible.

The "period of reflection" was not long, it said, referring to a cooling-off period agreed between Tokyo and Washington after failure to reach agreement on key issues in framework trade negotiations.

To improve relations "the government must carry out its promises to the US in a reliable manner," the Kaidanren said. On the macro-economic side, the government should adopt voluntary medium-term targets for "a highly significant reduction in the surplus," as agreed between the two countries.

This is the first time the business federation has specifically asked the government to adopt such targets and goes against stated government pol-

icy of not adopting targets it cannot guarantee it will achieve or which could lead to managed trade.

Mr Tsutomu Hata, foreign minister, said on Sunday that Japan could adopt a mid-term voluntary target to help create a better environment in negotiations with the US after recent talks ended in deadlock. While emphasising that it would be dangerous to set such targets at a micro-economic level, Mr Hata said it would be possible to calculate what part of GDP would be served by domestic production over the medium term.

The Kaidanren's position and Mr Hata's remarks reflect a growing feeling that Japan must send a clear signal to the US of its intent to reduce the current account surplus.

In the immediate aftermath of a US-Japan summit last month, Mr Morihiro Hosokawa, the Japanese prime minister, won acclaim for resisting US pressure to impose targets.

But as the US has tightened the screw with its revival of the Super 301 trade act, which provides Washington with ammunition to retaliate against what it considers unfair trade practices, the Japanese public is becoming increasingly frustrated with the government's failure to smooth tensions.

The Ministry of Finance, however, has staunchly opposed the setting of targets on the country's current account surplus.

## Making the telephones work in Russia

Leyla Boulton on efforts to bring order to the market free-for-all of initial telecoms reforms

Russia is due to offer 22 per cent of Rostelekom, its telecommunications giant, to Russian and foreign investors next week in the latest evidence of the change shaking up its telecommunications sector.

Rostelekom, which controls much of Russia's international traffic and practically all long-distance domestic traffic, is embroiled in a bitter debate over how much of a monopoly it should be allowed to restore after disenchantment in some quarters with a market free-for-all.

Fervent, if piecemeal, foreign investment has meant the creation over the last few years of dozens of joint ventures with foreign companies and the provision of a range of services, at least for hard-currency paying clients, which simply did not exist before.

The result is that making an international telephone call in Moscow has become easy rather than almost impossible - as it was under the old communist system, which discouraged free communication between its own citizens and between itself and the outside world.

The new investment plans have ranged from a grand international project to build a fibre optic cable network snaking across the Russian Federation from Denmark in the west to South Korea in the east - vastly expanding the number of international telephone lines available to ordinary Russian citizens - to a private telecommunications system



Calling Moscow: the biggest challenge is to provide infrastructure where local calls are still impossible

Tony Anderson

using cables in the Moscow metro.

Mr Edouard Altenhoven, the European Bank for Reconstruction and Development's team leader for telecommunications, says that until the Russian authorities can come up with a clear vision of where they want to go, "there's a good case to be made for chaos".

Chaotic development has at least brought some real improvements in service, which cannot be said about Belarus, for instance, which has only one foreign joint venture and little to show for it.

To combat some of the chaos, the

Russian telecommunications ministry recently signalled a change in its policies over mobile telephones. It threatened to deprive operators of licences unless they implemented their terms on deadline and it is insisting on compatibility between regional systems.

"This is the first clever idea and the first step towards civilisation in three years," said one Russian telecommunications expert who is an ardent supporter of market reforms. But he said that the chaotic, and sometimes corrupt, distribution of 70 licences around Russia to dozens of foreign companies - many of which either

just sat on their licences or planned to build networks which were incompatible with each other - was leading to "disaster".

The main challenge is to find ways of financing the upgrading of less profitable local infrastructure in a country where it is still impossible in some places to make a local call.

Rostelekom, together with a number of western companies, is working to finalise a \$10m project known as "50 times 50" to link 50 Russian cities with 50,000km of fibre-optic cable. The American telecommunications company US West has launched a finan-

cial vehicle, the Russian Telecommunications Development Corporation, into which it and other investors plan to reinvest profits and through which they hope to raise more capital.

Mr Stan Cramton, of US West in Moscow, believes Russia should have a telecommunications monopoly to "cross-subsidise" the less glamorous services with revenues from the more profitable international traffic.

"There isn't a single country in the world which did not develop its telephone infrastructure on the basis of a monopoly," he said. He admitted that a monopoly would benefit large companies such as his which are accustomed to working long-term and want certainty about the future.

Mr Gordon Muir-Carby, responsible for emerging markets at London stockbrokers Smith New Court, says there will be some institutional interest in the Rostelekom offering.

"People have determined that at least in telecoms and consumer industries things will reach rock bottom this year but then pick up," he said. But although many would consider any risk would be discounted in the low stock price, he believed that others would be put off by the lack of transparency in a company such as Rostelekom.

According to many western executives, there is a need for local telephone services to reflect more closely their true cost. But Russians warn that this would be politically difficult in a nation used to talking on the telephone for free, or close to it.

## Fish industry in US wary of Paris deal

By Nancy Dunne  
in Washington

The US fish industry reacted warily to a preliminary agreement reached last Friday between Washington and Paris over French government inspection delays of US fish exports.

"If you look at the history of French actions over the past few weeks there is reason to be concerned," said Mr Dick Gutting, a vice president of the National Fisheries Institute.

In response to angry protests by French fishermen, France placed an embargo on US fish early last month. Bowing to US pressure, it lifted the embargo, but instituted an inspection system which had the same effect and left fish rotting in

storehouses near French airports.

The US has sent an observer team to France to ensure that the inspection delays are at an end. Washington is prepared to retaliate immediately if the delays continue.

"They said product will be detained and subject to inspection if you are on a list of exporters who have had problems," said Mr Gutting. "We don't understand how you get on that list or how one gets off the list."

Meanwhile, a number of French importers of US fish have hired a lawyer to file a suit for damages, and the US industry has begun to estimate its own losses for legal action.

## Container venture to boost Indian exports

By John Simkins in Milan

Morteco, Europe's largest manufacturer of containers, has agreed a joint venture with India aimed at increasing India's food exports.

The company, which is based in Genoa, Italy, signed a deal at the weekend with the Indian conglomerate, Dalmia-Mittal, to produce 10,000 refrigerated containers a year at a Bombay factory due to open in May 1996.

Morteco said it would invest a total of \$20m in the container factory which will be the biggest in India and have an annual turnover of about \$70m. Forty per cent of the new company, Morteco Transfreight

Reefer Container, will be owned by the Bombay stock exchange from October.

The venture will receive government aid through the Industrial Development Bank of India.

The project is the first in India for Morteco, which was privatised by the state holding group Iritecna a year ago, and has a strong presence in China.

India is a big exporter of vegetables and fish and aims to increase its annual usage of refrigerated containers from 15,000 units to 50,000 over the next two years. Until now industry has relied on containers arriving empty at Indian ports.

### OECD Export Credit Rates

THE Organisation for Economic Co-operation and Development announced new minimum interest rates (in %) for officially supported export credits for March 15 to April 14 (February 15 to March 14 in brackets)

D-Mark	6.75 (6.24)
Ecu	6.40 (6.33)
French franc	6.72 (6.37)
Guillemet	
up to 5 years	6.40 (6.00)
5 to 8.5 years	6.50 (6.00)
more than 8.5 years	7.45 (7.00)
Italian lire	6.38 (6.21)
Yen	3.80 (3.50)
Peseta	9.84 (8.80)
Swiss franc	7.12 (6.72)
Starling	6.38 (6.24)
US dollar for credits	
up to 5 years	6.43 (6.43)
5 to 8.5 years	6.40 (6.00)
more than 8.5 years	6.72 (6.43)

These rates are published monthly by the Financial Times, normally towards the middle of the month.

A premium of 0.2 per cent is to be added to the credit rates when taking at 144 interest rates may not be fixed for more than 120 days.

OECD-based rates of interest are the same for all currencies but must be used only for the OECD-defined poor countries.

Between January 15 and July 14, the OECD-based rate will be 5.50 per cent. It remains the provision rate of 6.65 per cent. The OECD-based rate will apply change on July 15.

## Davy wins furnace contract

By Andrew Baxter

Davy International, part of Trafalgar House of the UK, said yesterday it had won a contract worth about \$75m to design and supply a blast furnace for China Steel in Kaohsiung, Taiwan.

The contract was awarded after more than two years of technical and commercial discussions with China Steel, in the face of intense competition from Japan and Germany.

The work will be handled by Davy's office in Stockholm, northern England, and includes supervision of erection and commissioning and training services.

Davy said a key factor in its selection was its track record in South Korea, where it supplied five blast furnaces to Posco, the steel producer.

## It takes quite a while to carve out a solid position in South America.



## Is 128 years long enough?

Many of today's business people recognise the potential offered by the economies of Latin America. Both individual and institutional investors are keeping a close eye on the latest developments in the continent. Yet coupled with this interest is a growing awareness that investments need to be handled by a bank that has more than a passing knowledge of the continent and its various cultures.

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Today, we remain as committed to accepting new challenges as our predecessors were 128 years ago. For example, ABN AMRO Bank recently engineered the placement of the first issues of private Brazilian bonds to reach the European market. And during the debt crisis of the 80s, we stayed in the region - remaining true to our long-term strategy and the needs of our clients.

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## NEWS: UK

# Commission in legal threat on shareholdings

By Gillian Tett in Brussels and Roland Rudd in London

The European Commission has threatened European Court action against the UK if it does not scrap rules which allow the government to set a limit on foreign shareholdings in certain companies.

The move seems likely to add to the tension between London and Brussels. It follows a long-running wrangle between the commission and the UK over the limits on foreign shareholdings set for British Aerospace and Rolls-Royce following their privatisation in 1987.

It emerged yesterday that the EC had opened infringement proceedings against the UK over the rules, which are designed to protect companies deemed to have a strategic or security role.

The commission says limits on shareholdings can sometimes be justified on national security grounds, but it feels the present UK legal structure is too flexible.

"This isn't just aerospace - it could be applied to a whole lot of sectors," explained one commission official. "What we are unhappy with is the fact that the minister is able to prohibit investments on the grounds of national interests."

British ministers also argue that scrapping the limit would allow EC companies to take over UK companies without extending the same rights to British shareholders. They say complex regulations in some EU countries, such as Germany, in effect prevent takeovers.

But the Department of Trade and Industry said it would consider the request from British companies affected by the limits to raise the cap on foreign ownership from 29.5 per cent to 49.5 per cent.

The commission says the UK law infringes single-market legislation, including laws on establishment and the freedom of circulation of capital, since

it makes distinctions between British and other EU shareholders.

The dispute over the limit of foreign shareholdings in BAE and Rolls-Royce was temporarily resolved in 1989 after the commission agreed to let the British government keep a limit of 29.5 per cent on foreign shareholding on the grounds of the companies' military significance.

However, this agreement, which commission officials stress was only temporary, has now technically expired.

Although commission officials deny that they have opened any proceedings against the British government over the BAE case yet, they admit they are reluctant to prolong a situation which contravenes the spirit of the single market.

"We do not want this to be a precedent - certainly not for other privatisations," commented one commission official.

The commission yesterday acknowledged that Britain was unlikely to be the only country in the EU which infringed community law. In the past, the commission has raised concerns on controls on foreign holdings in other sectors with Portugal and France.

The commission's formal letter of protest to the UK government was sent at the end of December, and commission officials say they have not received a response, although the two-month deadline for a reply has passed.

Under EU infringement proceedings, the commission would usually respond to a formal reply by issuing a "reasoned opinion" on the case.

Where cases cannot be resolved by diplomatic pressure, the commission may then proceed to take the government to the European court of justice. However, only a minority of cases get taken to the European court.

# Labour raps Tory policy on jobs

By James Biff

Mr Gordon Brown, the opposition Labour party's chief financial spokesman, yesterday claimed that Britain would be the only country at the jobs summit of the Group of Seven Leading Industrial nations next week to press a policy of industrial deregulation.

"The philosophy toward the unemployed of 'pile them high and sell them cheap' - the exclusive reliance on deregulation dogma - has not worked and will not work," Mr Brown said. He said the government was still "trying to export deregulation at the moment - at a time when even America has rejected it."

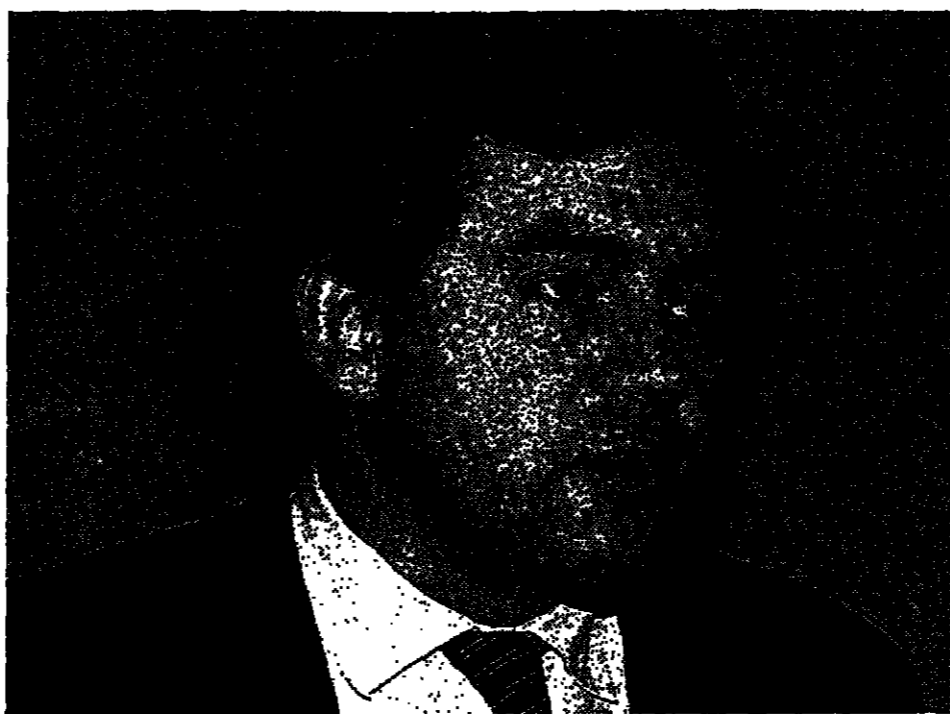
Mr Brown accused the government of behaving like "wreckers" in opposing proposals for co-ordinated action on economic growth and job creation across the western world. He claimed that British ministers were "negative and carping" towards an investment strategy to reduce unemployment, and were politically pandering to the free-market policies of the Tory right wing.

Mr Brown was commenting on the government's jobs strategy in advance of a G7 summit to be hosted in Detroit next week by US president Bill Clinton.

The summit - which will be attended by Mr Kenneth Clarke, the chancellor of the exchequer, and Mr David Hunt, the employment secretary - reflects the Clinton administration's determination to look for solutions to the rising level of unemployment in the developed world.

Mr Brown plans to be in Washington on the eve of the summit to promote Labour's ideas for a G7-wide approach to unemployment. In particular, he will call for:

- A pan-European cut in interest rates and the creation of a reserve of borrowed money to back investment projects in the European recession;
- The rejection of deregulation as a "miracle cure" and adoption of policies to increase employer and employee investment in training;
- A series of fresh initiatives for job creation, including the waiving of National Insurance contributions for those employers who take on long-term unemployed people.



Gordon Brown accused the government of "wrecking" action for job-creation

Picture: Lydia van der Meer

of a reserve of borrowed money to back investment projects in the European recession;

• The rejection of deregulation as a "miracle cure" and adoption of policies to increase employer and employee investment in training;

• A series of fresh initiatives for job creation, including the waiving of National Insurance contributions for those employers who take on long-term unemployed people.

Mr Clarke and Mr Hunt will today set out their approach to the summit. In "Competitiveness and Employment" they will reassert the government's belief that a deregulated labour market is essential if Europe is to remain competitive, while stressing the need to promote training and skills.

Winning the argument - described by one official as "quite a scrum" - could more than double the employment department's £3.7bn annual budget.

The government said the main reason for the drop was a decline in net lending by finance houses from £364m in December to £255m in January. Consumers also repaid £8m of credit card debt in January, after borrowing £36m in December. After debt repay-

ment, new credit advanced in January was £4.74bn, down from £4.93bn in December.

Mr Alex Carlisle, employment spokesman for the centrist party, said ahead of its first meeting today with the Trades Union Council: "I would not want candidates to be beholden to a union but sponsorship by unions is certainly on the agenda."

Trade unions have traditionally sponsored Labour MPs but the TUC, the umbrella organisation for many unions, has shifted in the direction of the Liberal Democrats on many industrial relations issues over the past few years.

## Britain in brief



## Officials battle over jobs benefit

British government officials are locked in combat over the administration of a new allowance due to replace the unemployment benefit system in April 1996. Both the social security department and the employment department have promoted the change to a job-seeker's allowance, but no decision has been taken on which will administer it. This could involve transfer of a budget of several billion pounds from social security to employment.

The Department of Social Security has included the bill introducing the new allowance on its list of submissions for new legislation. But the employment department is understood to be keen to shepherd the bill through parliament - putting it in pole position to administer the new allowance, which will merge unemployment benefit and income support. Both these benefits now come out of the social security department's budget of £80bn (£119.5bn).

Winning the argument - described by one official as "quite a scrum" - could more than double the employment department's £3.7bn annual budget.

## Credit falls as tax rises loom

A sharp drop in consumer credit for January yesterday suggested that people are tightening their belts ahead of tax rises due to take effect in April. Net lending to consumers fell to a seasonally adjusted £255m from £426m in December.

The government said the main reason for the drop was a decline in net lending by finance houses from £364m in December to £255m in January. Consumers also repaid £8m of credit card debt in January, after borrowing £36m in December. After debt repay-

## Major probes leak of meeting

Mr John Major, the UK prime minister, has launched an inquiry into how details of a private meeting he had last week with Mr John Smith, leader of the opposition Labour party, were leaked to a Sunday newspaper. The talks, on tomorrow's debate to renew the Prevention of Terrorism Act, "should not have been leaked". It was important such meetings could be held in private.

Mr Smith, who welcomed the move, had wanted to see if Labour's disagreement with the government over two specific measures could be bridged before tomorrow's debate. Labour regularly votes against the annual renewing of the act.

## TUC may extend MP sponsorship

Parliamentary candidates from the smaller opposition Liberal Democrat party may one day accept sponsorship from trade unions, the party said yesterday.

Mr Alex Carlisle, employment spokesman for the centrist party, said ahead of its first meeting today with the Trades Union Council: "I would not want candidates to be beholden to a union but sponsorship by unions is certainly on the agenda."

Trade unions have traditionally sponsored Labour MPs but the TUC, the umbrella organisation for many unions, has shifted in the direction of the Liberal Democrats on many industrial relations issues over the past few years.

## Monks assault pop charts

Benedictine monks have scored a surprise hit in the pop charts with a 20-year-old recording of 10th-century Gregorian chants. Canto Gregoriano was re-released last month by EMI and has sold about 500,000 copies - enough to send it to number two in the classical charts and to propel it more than 30 places to number 32 in the pop charts.

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مركز الامم

## British business lobby on Malaysia trade ban

By Kieran Cooke in Kuala Lumpur and Jimmy Burns and James Biltz in London

A group of leading British businessmen - including Lord Prior, chairman of GEC and a former cabinet minister - has flown to Kuala Lumpur in an attempt to persuade the Malaysian government to lift its trade ban on UK companies.

The group - which includes Sir Charles Powell, a director of Trafalgar House and former foreign affairs adviser to Mr John Major and Baroness Thatcher - is engaged in an intense round of private diplomacy with Malaysian officials to try to reverse the ban.

There were conflicting signs over whether this new mission could persuade Dr Mahathir Mohamed, the Malaysian prime minister, to reverse his policy, which followed allegations in British newspapers that UK companies had paid bribes to Malaysia's politicians in return for contracts.

Some British industrialists have taken heart from a week-

end statement by Mr Abu Kamaradin, the Malaysian high commissioner in London, who referred to his government talking to "diplomatic channels" and to reopening "excellent contacts" because of "good relations over years".

In London, one leading government minister was also confident that the Malaysians were seeking a way to drop the ban on trade, and that the issue at stake was simply how they could do so "without losing face".

But there were few signs elsewhere of any movement on the issue. "I think the Malaysian government is prepared to go all the way on this, especially if there is any retaliatory action by Britain", said Mr Razaleigh Hamzah, the leader of one of Malaysia's small opposition parties.

The Malaysian opposition said the ban on British companies should be lifted immediately and called for both governments to release the text of the controversial 1988 memorandum of understanding and

official documents relating to the Pergau hydro-electric project at the centre of a row over alleged links between aid and military sales.

Mrs Rafidah Aziz, Malaysian trade and industry minister, said Malaysia had nothing to lose by banning British companies from securing government contracts. Mrs Rafidah said many European companies had contacted her office asking for details on how to submit tender bids for projects.

John Leung, the construction company, has decided to withdraw from preliminary tendering for a \$300m (£750m) contract to build a terminal at a new international airport outside Kuala Lumpur.

British companies Balfour Beatty, GEC and Trafalgar House, along with Marubeni of Japan, were to have managed the \$300m airport project. Malaysia has announced that the British will no longer be involved in the airport though it is unclear whether the companies have received any official notification.

## Heseltine urges delay on Channel 5

By Raymond Snoddy

Mr Michael Heseltine, the UK trade and industry secretary, has written to the National Heritage department calling for a delay in the decision on Channel 5's approval.

Mr Heseltine, it is believed, has argued that the decision should be postponed until a government review of cross-media ownership rules has been completed. This is unlikely before the summer.

Supporters of a fifth television channel, which would use existing technology, fear that the DTI wants to kill the idea of the channel and reserve all the available frequencies for the development of digital television services.

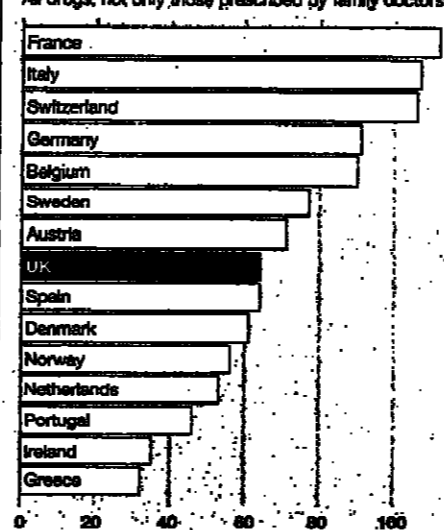
However it was Lord Young, a predecessor of Mr Heseltine at the DTI, who championed the idea of the channel to increase competition in the television advertising market.

Last month, Britain's Independent Television Commission came out in favour of re-advertising the franchise for the channel which could reach three-quarters of the UK population, provided the government guaranteed that the necessary frequencies would be available.

A number of large media groups are interested in the channel including NBC, the US TV network; CLT, the Luxembourg-based international broadcaster; and a consortium which groups Time Warner of the US, M&A, the company that controls Maridun, the ITV broadcaster for the south of England; and Pearson, owner of the Financial Times.

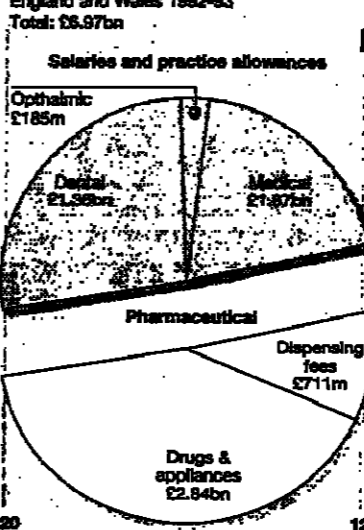
## National health: diagnosis of the drug bill

Drug expenditure per person (1990-91)  
All drugs, not only those prescribed by family doctors



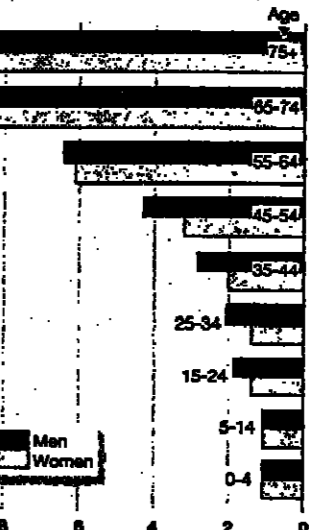
Source: Office of Health Economics

Expenditure on family health services  
England and Wales 1982-83



Source: Department of Health/Health Office

Index of drug costs per patient



Source: Prescribing Research Unit

## Drugs budget 'could save £500m'

By John Willman and Daniel Green

Britain's National Health Service could save up to £500m (£745.3m) a year on pharmaceuticals if doctors adopted better prescribing practices, the Audit Commission, which audits local authorities and health-service bodies, says today.

The savings would be enough to pay for an additional 80,000 hip replacement operations a year, the commission says in a report published today.

More than £45m a year is wasted on prescribing medicines of limited clinical value such as appetite and cough suppressants, nasal decongestants and anti-diarrhoeal drugs. Some doctors prescribe four times as many of these pharmaceuticals as others, the commission found.

The commission says that

immediate savings of up to £425m a year would be possible if every GP prescribed to the average standard of 50 good practices selected from around the country for the report.

In the longer term, savings could rise to £500m a year if doctors followed a 12-point plan set out in the report. The recommendations include greater use of unbranded medicines, and regular reviews of repeat prescriptions and prescribing policies to avoid waste.

The largest single saving would be the £100m which the report says is wasted by giving patients unnecessary anti-ulcer drugs when they have milder complaints such as dyspepsia. Ulcer drugs Zantac, made by the UK's Glaxo, and Losec,

from Sweden's Astra, are the two top-selling drugs in the UK with combined sales of more than £300m a year, according to figures from stockbroker Lehman Brothers.

With other conditions, substitution of unbranded drugs could achieve annual savings of £75m, the report says. A total of £3.8m a year could be saved on one SmithKline Beecham drug alone: Tenormin, for treating heart conditions, is the UK's 12th most prescribed drug with sales of £30m a year. It costs up to four times as much as its unbranded alternative.

The drugs companies said the report is flawed in detail and conception. Glaxo said that Zantac can also be legitimately prescribed for conditions other than ulcers, and added that some 4,500 people in the UK die from ulcer disease each year which "suggests an under-treated, not over-treated, area".

However, Glaxo is among the companies which could benefit from the commission's recommendation for increased spending on steroids to ward off asthma attacks. It has the three top-selling asthma drugs in the UK with sales of almost £200m a year.

Of non-UK companies operating in the UK, sales by Cyanamid of the US could be hit most if more unbranded substitutes were used. Its antibiotic Minocin, which is the 19th UK bestseller with sales of £26m a year, has several generic alternatives.

Most non-UK companies put their selling effort into patent-protected drugs. Even here, the report says money could be saved because a new generation of anti-depressives, which include Seroxat from SmithKline Beecham, are up to 10 times as expensive as older drugs and no more effective.

## City watchdog calls for broader regulatory role

By Allison Smith

Changes to the law should be made to enable financial regulators to play a much greater role in dealing with misconduct in the financial services sector, Mr Andrew Large, chairman of the Securities and Investments Board, said yesterday.

Mr Large, who heads the chief financial watchdog, called for new approaches to co-operation between regulators and the criminal authorities to ensure more effective investor protection.

In a speech he urged a change to the law to enable both SIB and the Department of Trade and Industry to investigate allegations of insider dealing and market manipulation.

He also called for SIB and the Stock Exchange to be given statutory powers to fine members.

One of his most radical suggestions was that defendants who have pleaded guilty to

crimes coming within the remit of the financial regulators should be allowed to undertake plea bargaining in open court.

Resisting the argument that plea bargaining would compromise the independence of the judiciary, Mr Large said it should be possible to devise a fair and open system for such negotiations.

His message was that once regulators proved they could enforce the rules they would be in a better position to handle more matters relating to misconduct and to dispel fears that they might be "soft on white-collar crime".

Mr Large cited the agreement which SIB has reached in principle with the Serious Fraud Office, about which cases should be dealt with by the regulators and which by the criminal courts.

In general, the regulator would deal with more technical offences, where the victim was less obvious, and the element of fraud or theft might be

harder to explain to a jury. There was a place, he said, for greater reliance on regulators to deal with potentially criminal cases involving those they regulated.

Mr Large's comments came in the wake of a new emphasis on enforcement by regulators. Last week SIB exercised for the first time its powers to ban an individual indefinitely from investment business in the UK, and Lantoro, the self-regulatory organisation for the life insurance industry, said it would impose heavier penalties on its members.

His speech underlined his belief that effective investor protection rather than rule books lay at the heart of financial regulation.

"Experience now begins to show that the success or failure of our regulatory system will be judged not by our ability to set up regulatory bodies, or to write rules, but to secure compliance with them and, in the final analysis, to punish non-compliance," he said.

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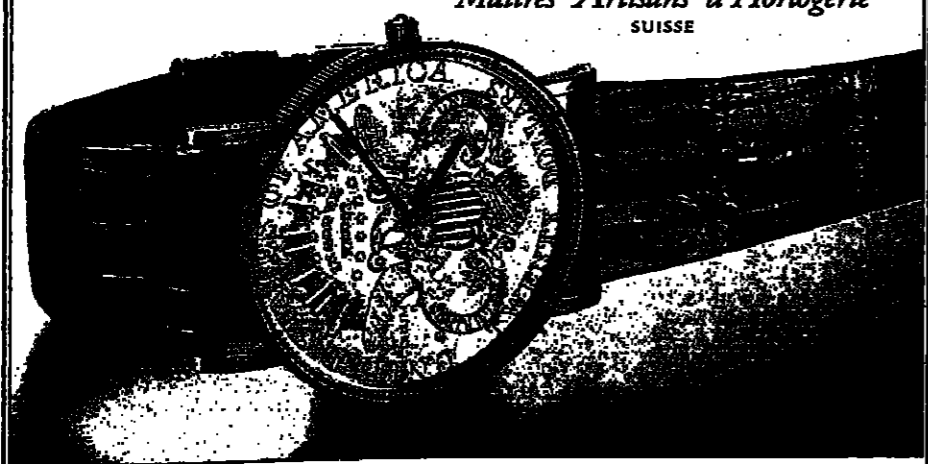
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# CAN EUROPE COMPETE?

## Ageing Europe

### With a greyer picture of the future in mind

While there are few trends which can be forecast with confidence over decades, there is one prediction that can safely be made about the countries of western Europe. Their populations will grow much older over the next 40 years.

In the 18 western European member states of the Organisation for Economic Co-operation and Development, the number of people aged 65 and over will rise from 50m to more than 70m between 1990 and 2030. During the same period, the number of people of working age will fall. The result is that, by 2030, there will be fewer than three people of working age in these countries for each person over 65, compared with five now.

Similar trends can be seen in other leading world economies, such as the US and Japan. The populations of the tigers of the Pacific Rim, such as Singapore and Taiwan, are also ageing fast.

But newly industrialising countries, such as China, India and Brazil, will have a much lower share of elderly people in their populations over the next 40 years.

Economists predict the ageing of the population in European countries will have an enormous impact on their economies and their international competitiveness. But there is little agreement over what the impact will be, according to Dr Paul Johnson of the London School of Economics.

"Demographic restructuring could alter patterns of consumption, production, employment, savings, investment and innovation," he says. "But because of the interactions between these separate ele-

The ageing of Europe's population poses big challenges for the state and the marketplace, says John Willman

ments, it is impossible to be sure of either the scale or, in some cases, the direction of the economic impact. Our understanding of the processes of economic growth and of innovation is too primitive to make long-term predictions."

This uncertainty extends even to the question of whether an ageing population will save more (to provide for old age), or save less as the elderly cash in their nest-eggs in retirement. A trend towards lower savings rates could threaten economic growth in countries with more rapidly ageing populations.

A series of theoretical studies has suggested that there will be a decline in the savings rate as the population ages. Yet, according to Professor Claus Zimmermann of Munich University, there is clear evidence from all over Europe that the ageing population is saving more.

"We are not clear why older people save so much," he says, "but they do."

The economic consequences of ageing will be felt unevenly in Europe, as some countries face more radical demographic change than others.

The greatest impact will be felt in Germany, where the population will decline by about 15m between now and 2030. Today, a fifth of the population is 20 or younger and another fifth 60 or over. By 2030, only 16 per cent will be under 20, 46 per cent will be between 20 and 60, and 38 per cent over 60.

If ageing leads to any sort of

competitive disadvantage, then demography could favour the economic performance of countries such as the UK and the US, where ageing will be less radical.

But globally it would be the newly industrialising countries, such as China and Brazil, which would gain the greatest competitive advantage from demographic change. For the first half of the 21st century, they will have much younger populations than the economies of Europe, Japan and North America.

Whatever the uncertainty over the overall economic impact of ageing, predictions can be made about its consequences in some economic sectors.

One is the much tighter labour market which will result as the number of people of working age shrinks. Employers will no longer be able to count on a flow of young people to meet their staff needs.

They will have to hold on to existing staff longer, rather than letting them go at retirement age or discharging them early as is now common. There will be pressure to increase the percentage of working age people actually in work - notably women who have left work to have children.

Business will have to cope with changes in demand patterns as older consumers become more significant in their markets and younger peo-

ple less so. Mintel, the UK market research organisation, says "third age consumers" are emerging as a distinctive group keen to spend more on leisure, holidays and health-care.

This group will increasingly want to make individual provision for their pensions as cuts in welfare benefits reduce state support. That will boost financial services companies offering personal pensions and other suitable savings products.

The European advertising industry is just beginning to think about addressing the older consumer, according to Ms Danielle Barr of 3rd Age Marketing in London. "There are phenomenal opportunities for companies which recognise the growing importance of this market and can succeed in it."

If European businesses do not recognise the opportunities, many US competitors will. American businesses have long recognised the importance of selling to older people, says Ms Frankie Cadwell of Cadwell Davies Partners, a New York advertising firm.

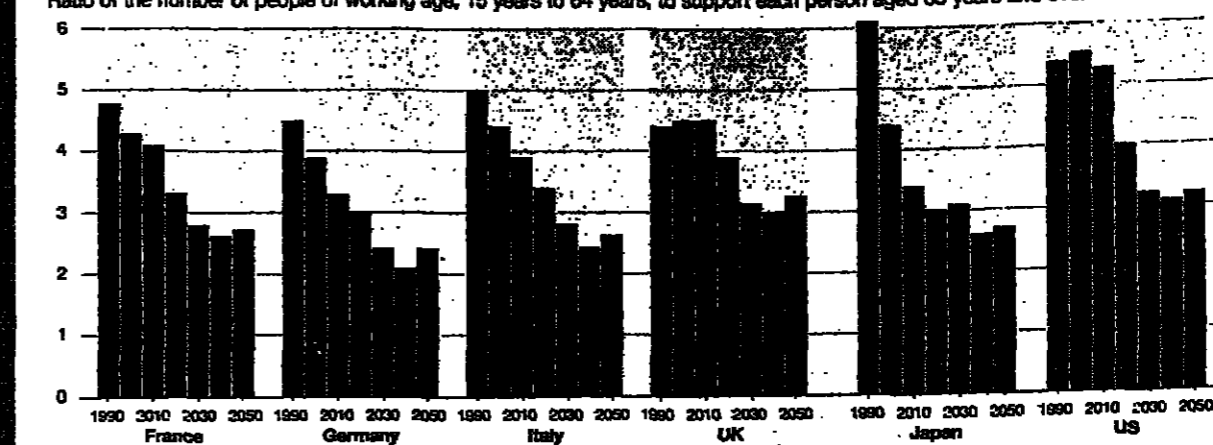
Cadwell Davis, a subsidiary of Saatchi & Saatchi, the advertising group, specialises in selling to the over-50s, among the wealthiest consumers in the US.

"We are interested in bringing expertise on products and services in the mature market to Europe," Ms Cadwell says. "European companies haven't begun to address their ageing home markets as we have in the US."

Why that should be so is hard to explain. For, while there are many uncertainties in longer-term planning of business strategy, one fact is certain. The customers will be much older in 40 years than they are now.

#### Age structure switches towards the elderly

Ratio of the number of people of working age, 15 years to 64 years, to support each person aged 65 years and over



#### Social expenditure

Burden per person aged 15-64 years

	1980=100	2000	2010	2020	2030	2040
France	101	105	117	129	133	133
Germany	112	119	131	157	162	162
Italy	102	109	120	135	143	143
UK	98	101	106	118	117	117
Japan	112	133	138	136	150	150
US	97	100	118	133	132	132

#### How to advertise to older people

- 1. Don't use models that are too young (not credible) or too old - people see themselves as 10-15 years younger than they are.
- 2. Show older people interacting with younger generations in real situations, active and enjoying what they are doing.
- 3. Information and facts are appreciated: cute puns and obscure abstractions are not.
- 4. No hype, no loud music, no quick cuts - but don't cut out genuine emotions and feelings.
- 5. Adopt an adult-to-adult tone of voice - people tend to acquire wisdom with age, not lose it.

#### 20 points about ageing in Europe

- Two out of three over-65s who have ever lived are alive today.
- There are around 330m people aged 65 or over alive today. By 2050 there will be 1.4bn.
- The world's oldest country is Sweden: 18 per cent of Swedes are 65 or over.
- The average European woman of child-bearing age produces 1.7 children. Around 2.1 children are required to replace the population.
- If Germany's fertility rate remains at its current level (1.3) its native population will be extinct within 300 years.
- Ireland and Iceland are the only western European countries with fertility rates high enough to sustain their populations.
- The country with the lowest fertility rate in western Europe is Italy.
- Europeans currently account for almost a tenth of the world's population. In 2050 they will be less than a fifth.
- The number of over-65s in Europe will outstrip the number of children aged 14 and under around 2020.
- More than 50m western Europeans are aged 65 or over - almost 15 per cent of the population.
- Of these, almost a quarter are aged 80 or over and 11m are 90-plus.
- By 2050 there will be 70m western Europeans aged 65-plus - over 20 per cent of the population.
- A man living in the European Union aged 60 can expect to live until 78; a woman until 82½.
- Almost half the over-80s in the EU live alone.
- There are roughly equal numbers of men and women aged 60 in western Europe. But women outnumber men two-to-one between 80 and 84 and three-to-one between 80 and 94.
- Less than 5 per cent of EU people in their 80s are severely incapacitated. Almost one in three in their eighties is incapacitated.
- Over-80s in the EU would prefer to be called "senior citizens" or "older people", according to a Eurobarometer survey. They do not like to be called "elderly", "pensioners" or "golden oldies".
- Real economic growth rates of up to 1.5 per cent a year are needed to pay the increasing bill for pensions over the next 50 years - more if pensions are to rise with earnings.
- Public health spending for people aged 65 and over is more than four times higher per capita than for the under-65s.
- Almost 80 per cent of EU citizens believe that those in employment have a duty to ensure, through contributions or taxes, that older people have a decent standard of living.

## Tensions on health care and pensions

### Welfare state

By John Willman

The greatest impact of the ageing of Europe will be felt on the welfare state, the cost of which is already putting pressure on the public finances and international competitiveness of much of western Europe.

The OECD estimates the pension burden could double over the next 50 years, through a combination of an ageing population and the increasing coverage of pension schemes.

Over the same period, the number of western Europeans of working age will drop by more than 15 per cent, leaving fewer people to generate the wealth to pay for pensions. The tensions will be most

acute in Germany, where there will be barely more than two people of working age for each person over 65 by 2040. Under current arrangements, social costs would climb from 33 per cent of GDP to more than 50 per cent, says Mr Heino Fassbender of the Frankfurt office of McKinsey, the management consultants and international competitiveness of much of western Europe.

Mr Fassbender predicts such increases will strain the inter-generational contract under which those in work pay taxes to finance the welfare state for those who have retired.

"We are heading towards the point when it will be impossible for our pay-as-you-go system to finance pensions and health care for the elderly," he says.

The social security contributions paid by German employers and employees have

already risen steeply to almost 40 per cent of the wage bill. Resultant higher employment costs are now widely seen as a factor in the country's declining competitiveness.

Some steps have been taken to curb increases, including limiting the rate at which pensions rise and raising the retirement age. Pensions are already 20 per cent lower than they otherwise would have been, says Professor Jens Alber of Konstanz University.

But there is little chance of winning support for more radical measures, says Prof Alber. "The present system is endorsed by 80 to 90 per cent of people in opinion polls, even if it involves much higher contribution rates."

And the government has recently agreed to a potentially costly extension of the welfare

state with the introduction of a scheme for care of the elderly. Until now, this has been the responsibility of families.

"While people know about the demographic trends, they don't yet appreciate the costs," says Ms Stephanie Wahl of the Bonn-based Institut für Wirtschaft und Gesellschaft. "The government is reluctant to enlighten them, because it would raise fears in the electorate in the run-up to October's general election."

The Institut advocates a switch away from the current earnings-related pension scheme. Instead it recommends greater private savings for retirement, with a flat-rate pension as a safety net for those unable to support themselves.

This solution is backed by Mr Fassbender: "Sooner or

later, people will realise the need to increase the amount they set aside to live on in retirement," he says.

Similar pressures will be felt across much of Europe as the population ages. Most countries are pruning their welfare states in ways that will encourage greater private provision. Countries such as the UK and the US which have already encouraged private pension provision will find it easier to promote a continuing switch away from public provision.

And countries like the US and Australia, which are more open to immigration, face less serious demographic problems as younger migrants arrive and start families. Until the current recession, immigration has reduced the rate of Germany's population decline, bringing over 3m new inhabit-

ants in the last three years.

"There would be resistance to the arrival of more immigrants with current levels of unemployment," says Prof Alber. "But as the economy recovers and there is again a shortage of labour, further immigration might be acceptable."

But countries imposing the lowest welfare costs on businesses stand to gain most from a decline in Europe's competitiveness as the population ages. These will include the rapidly industrialising countries of Latin America and Asia with their young and growing workforces.

But it could also include the more mature economies of east Asia, which are emphasising the responsibility of families in caring for older relatives.

## Extending the price of dignity

For the occupants of the St Bruno home for the elderly in the German Rhineland metropolis of Cologne, growing old is a relatively genteel affair. Electronic doors whir open to ease wheelchair access. When the annual carnival show took place in the packed dining room at the end of January, the spectacle was transmitted to 70 bedridden residents by in-house closed-circuit television.

The 180 elderly people receive exemplary attention from a roughly equal number of well-qualified staff, including 59 nurses and five with a diploma in sports education.

The centre, run by the Catholic charity organisation Caritas, boasts its own pottery kiln, a cafe called Oasis and a spacious chapel where Mr Fritz Kinck, the 87-year-old resident priest, holds daily masses. Mr Kinck helped set up the home 10 years ago and is its most eminent resident.

"We don't want to be either a hospital or a ghetto," he says. "We offer a real culture of growing old."

It is a culture with which Germany as a whole is becoming distressingly familiar. The country with Europe's most serious "greying" problem is ageing faster than it is developing the means to pay for the consequences.

Fees at the home range from DM2,700 a month for basic residential care to DM4,600 for the 130 occupants needing intensive nursing. The most acute cases pay DM860 on top of this. For most, payments are made directly from social security. St Bruno has no financing difficulties at present. In 10 years, that may be different. The inmates are shielded from the pressures of financial arithmetic. Some have no idea of the degree of care lavished on them. More than 60 are registered as mentally "confused".

The home was built for people aged between 65 and 75. In the last decade, according to Mr Siegfried Apolonski, the director, the average age has risen to 84. The oldest is 102. Ten years ago, most occupants came to St Bruno as part of a transition from life at home. Now, most occupants make their entry from hospital. Originally, 80 patients were acute

**CASE STUDY: St Bruno home**  
Growing old in Cologne is a genteel affair. But can it last?

David Marsh reports



nursing cases; now the figure is 60 per cent higher. Each year between 40 and 45 die.

The centre, one of seven Caritas homes in Cologne, lays on an ambitious programme of lectures and entertainment. "We have to offer a wide range of activities," Mr Apolonski says. "We've got some people here with doctorates."

However, over afternoon coffee in the dining room, Mr Robert Kaulbach, a fit and lively-looking 85-year-old, laments the lack of intellectual stimulus. "Many people here are round the bend," Mrs Katharine Buschwald, a 93-year-old ex-bookkeeper, takes a more charitable view: "I never thought about getting old... Now I am content."

St Bruno's residents are living out their last years, at best, in dignity, at worst, without being aware of the decay of their bodies and minds. Maintaining this service depends on increasing resources flowing from the active sectors of the population. The pain of growing old will soon be shared by those for whom a move to St Bruno's is decades away.

This is the ninth part of a 10-part series. Tomorrow: The way forward.

An 86-page paperback containing all the articles in this series will be available later this month, at a price of £20 per copy. Cheques should be made payable to Financial Times Ltd and sent to John White, Marketing Department, Financial Times, 1 Southwark Bridge, London SE1 8HL.

All data on financial markets published on Friday March 4 were drawn from Berni Stat, Compustat, Intestation and registration in EC Central Markets, Royal Institute of International Affairs, 1002.

## Fresh thinking needed on old labour problem

### Employment

By David Goodhart

If the more dramatic demographic projections are to be believed, European employers will have to perform a U-turn in their attitude towards older workers in the next 10 to 15 years. Companies which have been trying to persuade 55-year-olds to take early retirement will be trying to persuade 70-year-olds to stay on a few more years.

One issue is "eldercare" - allowing older employees to fit their work around caring for elderly relatives. Others include introducing a "flexible decade of retirement" (allow-

ing people gradually to reduce their working time) and redesigning jobs for the older worker.

Curiously, European companies have been doing little to reform their recruitment and retention practices with a greyer future in mind. The overwhelming trend is still towards early exit for the older worker, according to most analysts of ageing and employment.

One exception is the UK Do-It-Yourself retailer B&Q, which has deliberately targeted older people as employees. It has found a big improvement in performance, with better customer service, less time off sick and less pilfering.

EuroLink Age, a European

network concerned with older people, says that employer thinking about older workers is driven more by short-termism than by ingrained prejudice. When labour markets were tighter in the late 1980s some companies did start to think about holding on to older staff for hard-headed business reasons. "But that interest went on the back-burner during the recession, when labour supply was not really an issue," says Ms Dorothy Berry-Lound of the Host Consultancy.

As for eldercare policies, Ms Berry-Lound says very few European companies have thought much about them, comparing poorly with large US companies in this respect.

Notable exceptions include car companies Ford and Daimler-Benz, which offer career breaks of up to 12 months and flexible working time to carers. In the UK, the BBC has established a support group for employees caring for older relatives, and the big clearing banks are also now offering car packages.

People who have to combine work with caring for an elderly person often suffer from stress which may affect productivity and performance at work. Such employees may also need to take days off work at short notice, leave work early (or arrive late), and may need time during working hours to talk on the telephone. Much of this is a cost to companies, which

many feel they do not need to bear at present.

Job redesign and career development, continental European companies seem to be leading the way. Madame Françoise Doppler, a personnel manager at France's Aerospatiale, says that the company has analysed its workforce in terms of age, health and career structures. It has redesigned the content of certain jobs and is using more workers in a training/teaching capacity. Renault, where the average age of the workforce has risen recently to nearly 45, is taking a similar initiative.

The flexible decade of retirement is more talked about than practised, although the privatised utilities in the UK

have been taking some steps in this direction. The inflexibility of pension arrangements, especially with pay-as-you-go pension schemes in countries like Germany, can make this a complex option. There are fewer problems with funded schemes such as employers' pensions in the UK.

Despite growing exhortation by government and lobby groups, however, the activity rate of older workers in Europe is likely to continue falling until companies are again hit by a shortage of labour. Early retirement of older employees, often near the top of the earnings ladder, will always look tempting as long as there is a continuing supply of younger, cheaper workers.

## Seaside break or whale watching at Cape Cod

### Saga holidays

By Michael Skapinker

Four decades ago, a Kent hotelier called Mr Sidney De Haan decided the way to fill rooms in the off-season was to offer cheap holidays to retired people.

From this idea grew Saga, a group with a turnover in 1992-93 of £130m, offering holidays, financial services and magazines to the over-60s. Saga understood that the

special needs of older customers could be a market opportunity rather than a deterrent. Other hoteliers also struggled in the off-season and they were prepared to offer Saga cheap rates for the package holidays it began to sell.

On the customer side, no one was looking at what retired people needed on holiday. They did not want to climb steep hills to get to their hotels and they wanted someone to carry their suitcases.

Mr Roger De Haan, the founder's son, started out in

the business carrying older guests' luggage to their rooms at his father's hotel. He is now chairman of the company.

Retired people are far wealthier than when the company started, he says. They are also more experienced travellers. Saga still offers one-week holidays at UK seaside resorts for as little as £100. But it also now sells trekking holidays in the foothills of the Himalayas, whale watching from Cape Cod and round-the-world cruises. Its most expensive round the world trips sell for £20,000.

Saga has a holiday business in the US, as well as the UK. American over-60s are richer than their UK counterparts and prefer to stay in hotels whose names they know, such as Hilton and Holiday Inn. Older British travellers prefer local hotels, Mr De Haan says.

The group tried to offer Australian over-60s similar holidays, but that venture failed. The Australian population is too small to support a mass senior travellers' business.

Northern Europe is a better prospect, Mr De Haan says,

Saga is in discussions which could lead to it offering its services on the Continent.

Saga's offerings now include financial services as well. It acts as an insurance broker, finding motor, home and health insurance for the over-60s. It is not often realised older people are a lower risk for insurers, Mr De Haan says.

They drive fewer miles and have fewer accidents. Because they are at home more, they are less likely to be burgled. And when they make insurance claims, they are usually

more honest than young people, he says. About half the 750 staff at the group's Folkestone headquarters now work on the financial services side.

Recession has had little effect on business. A more serious threat is low interest rates, hitting the bank and building society income of retired people.

Saga says sales of its low cost UK holidays have been most affected. The over-60s who go on expensive trips around the world still appear to have money to spend.

## BUSINESS AND THE LAW

## Appeal dismissed in nail-gun fight



EUROPEAN COURT

The European Court of Justice has dismissed the final appeal by Hilti, a nail-gun and fastening manufacturer, against a European Commission fine imposed by the Commission in 1987 for abuse of its dominant position in the market.

Upholding the Court of First Instance's judgment in favour of the Commission's decision, the ECJ rejected Hilti's claims that the CFI had not applied the correct legal tests in defining the relevant product market for the purpose of determining Hilti's dominant market position.

The Court's decision confirms that the scope of an appeal from the CFI to the ECJ in competition cases is strictly limited to appeal on a point of law only. The ECJ said an appeal may only be made on grounds relating to the infringement of rules of law, to the exclusion of any appraisal of the facts.

In the course of its judgment, the ECJ explained that the appraisal by the CFI of evidence put before it does not constitute (except where the clear sense of that evidence has been distorted) a point of law which is subject, as such, to review by the ECJ.

Hilti had appealed to the ECJ against the CFI's judgment of December 12 1991. The CFI dismissed Hilti's application for the annulment of the Commission's 1987 decision imposing a fine for abusing its dominant position by conduct intended to hinder entry or penetration of the market for Hilti-compatible nails by independent producers of nails for Hilti nail guns.

Hilti manufactures a range of products used for fastening materials in place, and in particular nail guns, cartridge strips, cartridges and nails. These products are referred to collectively as "powder-actuated fastening systems" (PAF systems).

The main dispute between Hilti and the Commission concerned the definition of the relevant market in which Hilti operated. The Commission found there were three separate markets for nail guns, cartridge strips (and cartridges) and nails.

Hilti claimed there was a single market comprising all the fastening systems which can be substituted for PAF systems. Since the three components of the PAF systems made up an indivisible whole, Hilti said, these competed in one market, which included drilling and screwing systems.

The CFI held on the contrary that the relevant product market in relation to which Hilti's market position must be appraised was the market for nails designed for Hilti nail guns.

In its appeal, Hilti challenged the grounds on which the CFI arrived at this definition of the market, enabling it to conclude Hilti was in a position of dominance. The ECJ rejected all the grounds relied on by Hilti, finding that the CFI had adequately dealt with issues such as the interchangeability of PAF systems with other fastening products.

Hilti also challenged the appraisal of certain economic evidence and claimed that the CFI had failed to take into consideration all the evidence presented by Hilti. Since no claim was made that the CFI distorted the clear sense of that evidence, the ECJ said the submissions relating to the appraisal of facts were inadmissible.

In dealing with Hilti's claims that certain reasoning relating to the discharge of the burden of proof by the Commission was defective in the CFI's judgment, the ECJ found that the Commission had based its reasoning in its decision on precise factual evidence, rather than supposition as alleged by Hilti.

The ECJ said the CFI had not required any proof beyond that normally required of applicants in order to establish that their pleas in law were well founded by requiring Hilti to demonstrate its view was well founded.

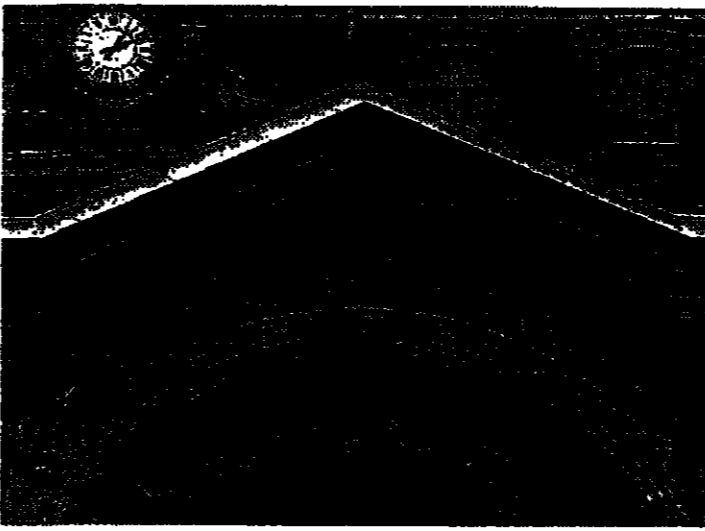
The Court also rejected a claim by an intervenor, Bauco, that the ECJ increase the fine imposed on Hilti in view of the delay caused by Hilti's behaviour. Since Bauco had not brought a similar claim before the CFI, the ECJ said it was not open to an intervenor to request a form of order from the ECJ different from that sought at first instance.

*C-53/92 F. Hilti v Commission, interveners: Bauco (UK) Ltd and Profex Distribution Ltd, ECJ FC, March 2 1994.*

BRICK COURT CHAMBERS, BRUSSELS

## Overthrow of ancien régime

Jean Thibaud explains changes to French banking and company laws



Facelift: French banking laws have recently been brought up to date

At its simplest level, netting involves the set-off of transactions against each other. When it works effectively, it is recognised by the counterparties to a transaction and is designed to reduce insolvency exposures, it allows capital requirements to be greatly reduced, since the credit and liquidity exposures of participants are also reduced.

England has recently accepted netting as a basic principle of insolvency law and the US has also passed legislation permitting it, so that it can bring its capital adequacy rules into line with the recommendations of the Basle Committee of the Bank for International Settlements.

France has now followed suit. The law of December 31 provides that a French company, or a French branch of a foreign company, may now fully recognise, and gives effect to close out, netting provisions included either in regulations applicable to official markets, or in master form agreements published by the International Swaps and Derivatives Association or by the French Banking Association (AFB) for over-the-counter transactions.

The practical consequences of the new law are, first, that a French company to such a derivative transaction will not be charged an extra premium for counterparty risk; and second, banks will be able to show their net position with a French counterparty, thereby reducing their capital costs. The December 31 changes also clarify the law on repurchase agreements - instruments by which securities are sold on a short-term basis with an agreement to repurchase. Until the law was passed, there was some doubt among the legal community about the enforceability of a French court of a *pension horde* (repurchase agreement).

This was because the legal bases of this instrument were weak, the first being a memorandum of understanding (*accord de place*) approved by the Bank of France in co-operation with the Association of Banking Treasurers and the second, purely for the tax aspects, a simple letter from the Ministry of Economy and Finance to the AFB.

The invaluable contribution of the new law is that it offers a safe legal framework for such transactions, and it defines the large number of instruments which may be subject to repurchase agreements ("repos") and the institutions which are authorised to enter into such transactions: banks, securities houses, brokerage firms, mutual funds, financial institutions, institutional investors, insurance companies, non-profit corporations and unit trusts.

The law also sets out the tax and accounting treatment of "repos", thereby creating the conditions required for the development of a real international "repo" market in Paris, such as currently exists in London and New York.

The law of December 31 also abolished stamp duty on securities transactions entered into with a non-French tax resident on the Paris bourse. This measure is expected to suppress one of the big incentives for large French stockholders to sell blocks of shares on the London Stock Exchange through the electronic automated quotation system (Seaq).

This measure, together with the success of the current privatisation programme, is expected to boost the volume and liquidity of the market on the Paris stock exchange.

On the corporate side, the changes are designed primarily to provide a more flexible and modern company law and to restore some of the rights of banks and other secured creditors in the event of the bankruptcy of a French company.

The law of January 3 1994 has created a new form of joint stock company, the so-called "simplified joint stock company" (or "SAS" in French), which allows for much greater flexibility in, among other things, the decision-making process, management and the exclusion of shareholders than previously permitted under company law.

The essential difference is that the shareholders, subject to only a few restrictions, can organise the company as they wish. This type of company is particularly suitable to both domestic and cross-border joint ventures between medium and large-sized companies.

French companies had been lobbying for such a simplified joint stock company for some time. Previously they had no alternative but to go into other European jurisdictions, in particular the Netherlands, to find the level of legal flexibility appropriate for certain types of joint ventures between large companies.

For the first time in the history of French company law, the law of December 31 1993 expressly permits

the forcing out ("squeeze-out") of minority shareholders in a listed company.

The issue was hotly debated in the parliament, and the French squeeze-out is subject to strict requirements. First, the majority shareholders should hold either together or "in concert" no less than 95 per cent of the capital and voting shares of the company.

Second, the squeeze-out may occur only after a tender offer or a request for delisting of shares has been made in accordance with the rules issued by the CBV, the regulatory authority for the French stock exchange.

Eventually, the minority shareholders should receive fair compensation in each case of the value of the assets of the company, the profits of the company, the market capitalisation for the shares, the existence of subsidiaries and the financial prospects for future business.

The national assembly also passed on January 10 this year a draft bankruptcy bill, amending the 1985 Bankruptcy Act. If approved by the Senate, it would significantly alter the rights of banks and secured creditors of a company either under administration or in bankruptcy.

The 1993 act favoured employees, and was aimed primarily at keeping the company alive and saving jobs by precluding banks and other secured creditors from enforcing their security and selling off the assets of the company.

The principal consequences of the draft bill for the banks and the other secured creditors would be that in the event of liquidation, the secured creditors would rank before the creditors who granted new money after an administration judgment; the tax authorities and social security would not be given preferential rank in respect of all their claims; and that, in the event of a bankruptcy, the secured creditors would be permitted to enforce their security by selling off the assets of the company.

For political and historical reasons, the French deregulation movement took place later than and was not as brutal as in other western countries, such as the UK or US.

Even if these changes do not appear to be that spectacular from a UK or US perspective, they illustrate a clear departure from the *ancien régime*. They show a clear political will to integrate France into the worldwide economy, and to offer to participants in the French markets the same types of legal instruments available in the most industrialised countries.

The author is an Avocat and partner of Gide Loyrette Nouel, the Paris-based law firm

## LEGAL BRIEFS



## Flotations mean business for City solicitors

A flood of flotations has been good news for City solicitors. Linklaters & Paines was the leading legal adviser in the final quarter of last year: it was involved in 18 new issues as solicitor to the issuer or the company.

Clifford Chance and Ashurst Morris Crisp were equal second for their involvement in nine issues each. Slaughter and May was fourth with eight issues; Herbert Smith fifth with seven; and Freshfields, Norton Rose and Travers Smith Brathwaite equal sixth with five.

Figures from accounts KPMG show 73 companies joined the official London list in the final quarter of 1993, the highest number since KPMG began keeping records in the mid-1980s.

## Disputes option

The Delaware state legislature has unanimously passed the Summary Procedures Act, an alternative dispute resolution measure. This gives Delaware companies the chance to avoid jury trials for civil actions by opting to take their cases before a special panel of judges.

## Tort reform

A more systematic approach needs to be taken to the reform of tort law worldwide, according to a review of the economics of law reform published by the Oxford Review of Economic Policy.

The movement towards strict product liability in the US and Europe, for example, will have little impact on product-related accidents, it says. Tort reform should be seen in the wider context of public policy towards regulating the quality of products, workplace safety and environmental damage, rather than as a response to events where victims are seen to be in need of compensation.

## PEOPLE

## Racal chooses Richardson for data

Racal Electronics, which has been dogged by bid rumours for months, is attempting to turn around the problem data communications operation by bringing in Martin Richardson, right, from elsewhere in the company to become chairman and chief executive of Racal Data Group.

Tim Holley, the previous incumbent, was last October named chief executive of Camelot, one of the bidders for the National Lottery.

Since then, Racal's chief executive David Elsbury says he has spent several months "reviewing and validating the new-product pipeline and sharpening the focus of the research and development programme." Richardson now has until May to produce for the board "a detailed report on progress and plans for the business".

While Holley was based in the UK, Richardson has moved out to Florida, where much of

the data group's business is located. Holley had spent more of his time on the other, newer, side of the division, the UK-based Network Services. Peter Blair, 56, previously in charge of the company's advanced development activities, has



also transferred to Florida as technical director of the data group.

Richardson, 49, a former Plessey executive who has

been on the main board of Racal Electronics since 1988, earned his spurs recently by repairing the fortunes of Racal's specialised businesses, in particular turning software subsidiary Racal-Redac's large losses into respectable profits. He will have plenty of scope for action at Racal Data Group, where pre-tax profits in the year to March 1993 were just £12.6m despite sales of £370m.

As Mike Styles, an analyst at Credit Lyonnais Laing puts it: "Richardson's track record suggests he will revive the operation." The question is how much time he has got. "Yesterday, the shares closed at 229p, up 7p on the day."

■ Martin Burgess has been appointed human resources director of NCR; he succeeds Cheryl McNeil who is promoted to HQ in Ohio.

■ David Elder, president of PSION Inc, has been appointed to the parent board.

## Redland constructs

From specialist publishing to roof tiles, bricks and concrete - Paul Hewitt, 37, is moving from being finance director of Euromoney to be finance director at Redland, one of Europe's biggest building material groups.

Hewitt has been appointed to succeed Gerald Corbett who at the end of last year was announced as the new finance director of Grand Metropolitan the food and drinks group.

Corbett, who leaves Redland at the age of 42, had managed the company's financial affairs for six years and had been particularly adept in minimising the company's tax and interest liabilities. He will be a difficult act to follow.

Robert Napier, Redland's chief executive said yesterday: "Over the last six years Paul Hewitt has played a key role in the successful growth of Euromoney including its international growth."

Euromoney Publications, 75 per cent-owned by the Daily Mail and General Trust, lifted pre-tax profits by 28 per cent from £13.8m to £17.7m in the year to September 30. Redland in the first six months of last year increased pre-tax profits by 22 per cent to £106m.

Hewitt, who will commence duties at Redland this summer, was educated at St Paul's school and Cambridge University before qualifying as a chartered accountant at Arthur Andersen. He has been finance director at Euromoney since 1988.

■ Stephen Liddle has been promoted to md of Geoffrey Osborne Homes, part of the OSBORNE Construction Group.

■ Norman Lambert, most recently a consultant, has been appointed md of the Stonewest Cox Restoration division of PETER COX GROUP.

■ Alan Figgott has been appointed commercial director for STONE & WEBSTER Engineering; he moves from AAB Lumsden, Crewe.

■ UNICHEM, the pharmaceutical company, has appointed a new finance director, Geoffrey Cooper, 40, who is joining from Isoceles, where he was group finance director of the operating arm, Gateway Group. Cooper was previously a management consultant with Spicers and Arthur Young. He replaces Graham Sewell.

says Riley.

other non-executive appointments.

■ Michael Heines, retired partner of KPMG Peat Marwick and former director of Nationwide Building Society, at LAMBETH BUILDING SOCIETY.

■ Wisse Dekker, chairman of Philips Electronics, Peter Raven, formerly finance director of Ultramar, Bernhard Rumbold, at MATOL BOTANICAL GB.

## Bodies politic

■ Peter Griffiths, former chief executive of Guy's Hospital Trust, has been appointed director of the King's Fund College and deputy chief executive of the KING'S FUND.

■ Martin Richards, md of Komori UK, has been appointed chairman of the MECHANICAL AND METAL TRADES CONFEDERATION.

■ Anne Whitby, md of Chart Analysis, has been appointed chairman of the SOCIETY OF TECHNICAL ANALYSTS.

■ Clive Boothman, md of Schroder Unit Trusts, has been elected deputy chairman of the ASSOCIATION OF UNIT TRUSTS AND INVESTMENT FUNDS.

■ Clive Furness, formerly a

director of J Aron and Co (UK), the coffee trading department of Goldman Sachs, has been appointed director of business development at The LONDON COMMODITY EXCHANGE; previously chairman of the LCE options market, Furness is on the LCE board and is chairman of its Coffee Market Committee.

■ Trevor Smallwood, chairman of Badgerline, is the new president of the BUS AND COACH COUNCIL.

■ John Starbuck, md of Twiflex, part of Tomkins, has been elected president of EEF SOUTH, the Engineering Employers Federation for the south and south east.

■ David Cameron-Moore, chief executive of BNP Mortgages Group, appointed chairman of the ASSOCIATION OF MORTGAGE LENDERS.

■ Mike Beard, director of cor-

the board of Telspec Europe for some while. Chief executive Garth Riley said that at the time of the listing he didn't want to upset BT, one of its principal customers, by having two C & W types on the main board. "They were proof-reading the prospectus and it would have made their hair stand on end." Now the company is safely public, he reckons he has more room for manoeuvre. What does BT say now? "I haven't asked them,"

Sky, also an old C & W hand, has been a member of

## LEGAL NOTICES

In the High Court of Justice 1994 No. 0510  
Chancery Division  
Related District Registry  
IN THE MATTER OF  
THE COMPANIES ACT 1985  
AND IN  
THE MATTER OF  
MAGNUS WOLDS LIMITED  
Notice is hereby given that a petition presented to the High Court of Justice, Chancery Division, Related District Registry on the 22nd day of February 1994 for the confirmation of the reduction of the capital of the above named Company from £725,150 to £207,753 is directed to be heard before His Honour Judge Weeks QC at The Old Council House, Court Street, Bristol, on Thursday the 24th day of March 1994. Any Creditor or Shareholder of the Company desiring to oppose the making of the Order for the confirmation of the said reduction of capital should appear at the time of the hearing in person or by Counsel for that purpose. A copy of the said Petition will be furnished to any such person requiring the same by the undersigned Solicitors on payment of the regulated charge for the same. Dated this 4th day of March 1994. Michael Evans and Company, Solicitors for the above named Company.

In the High Court of Justice 1994 No. 0512  
Chancery Division  
Related District Registry  
IN THE MATTER OF  
THE COMPANIES ACT 1985  
AND IN  
THE MATTER OF  
MAGNUS BONES LIMITED  
Notice is hereby given that a petition presented to the High Court of Justice, Chancery Division, Related District Registry on the 22nd day of February 1994 for the confirmation of the reduction of the capital of the above named Company from £656,000 to £207,858 is directed to be heard before His Honour Judge Weeks QC at The Old Council House, Court Street, Bristol, on Thursday the 24th day of March 1994. Any Creditor or Shareholder of the Company desiring to oppose the making of the Order for the confirmation of the said reduction of capital should appear at the time of the hearing in person or by Counsel for that purpose. A copy of the said Petition will be furnished to any such person requiring the same by the undersigned Solicitors on payment of the regulated charge for the same. Dated this 4th day of March 1994. Michael Evans and Company, Solicitors for the above named Company.

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The Ministry of Housing  
Notice of national and international invitation for the preselection of building companies to construct 2,000 urban public lodgings in Algiers.

The Ministry of Housing issues a notice of the invitation for tenders in order to preselect national and foreign companies which will be responsible for the implementation of a programme to build 2,000 public lodgings financed by the Saudi Development Fund.

This programme will be divided as follows:  
- 687 lodgings in Vertu Rive, Bordj El Kiffan  
- 324 lodgings in Bab Ezouar  
- 300 lodgings in Bab Ezouar  
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- 380 lodgings in Said Hamdine (Birhadem)

The implementation of this programme will require the ability to meet building deadlines and provide a high quality construction.

Suitable companies will be allowed to tender for one or more sections of the programme.

National and foreign companies will be able to amalgamate to form a jointly liable group within the framework of a partnership. This form of procedure is favoured in order to strengthen the realization capacities of national companies.

Interested companies can obtain a brochure specifying the terms and conditions from the Ministry of Housing at "Direction des Programmes d'Habitat et de la Promotion Immobilière", 135 rue Didouche Mourad, Algiers, from 9 a.m. till 11 a.m. and 1 p.m. till 4 p.m.

The deadline for tenders is set at 30 days after the publication of this notice inviting for tender preselection.

NB: The present notice of invitation for tender preselection replaces the previous notice which was published in the Algerian national press.

\* Supervision of Housing Programmes and Property Development.

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FT Surveys

## MANAGEMENT: THE GROWING BUSINESS

## Go east, young company

Richard Gourlay reports on the opportunities offered by the Polish privatisation programme



Job Maats: 'If someone has the vision and a plan then Poland is ideal'

Since the Berlin Wall fell in 1989 and eastern Europe was opened to western investment, not one of the world's biggest computer makers has set up or bought manufacturing plants in the region.

Yet a small British company is on the verge of taking just such a step, attracted by the low manufacturing costs and the quality of available engineers. Metric Components, which makes electronic point-of-sale (Epos) cash registers, will this week take management control of Temed SA, a medical equipment factory based in Silesia, southern Poland, and owned by the state.

The deal is high risk. Apart from anything else, Metric might find that being removed from its main market makes it less responsive to its customers, costing it more in lost sales than it gains from lower manufacturing costs.

But Metric's deal does show that other smaller companies, which would benefit from a lower manufacturing cost base, can join the largest companies in buying privatised assets in eastern Europe.

Metric's Epos cash registers are akin to small computers, not only recording transactions but helping the management of inventory and re-ordering. The machines are designed in Basingstoke, England, the electronics come from Far Eastern suppliers such as Lucky Goldstar, and the finished product is sold mainly in the UK. Until this week the machines were manufactured under contract in Poland.

Job Maats, Metric's Dutch chief executive, says the attraction of Temed - which is being sold through the Polish Privatisation Through Restructuring programme - is the opportunity of cutting the cost of innovation.

About 90 per cent of the cost of making a mould for the plastic casing of the cash tills is the cost of engineers. With Polish engineers costing 10 per cent of their western counterparts, the saving is substantial. As a result, the risks involved in changing the design of a product are reduced because smaller batch runs become economic, he says.

While the big computer companies have chosen not to move to eastern Europe, Maats is not alone in extolling the attractions of the region. David Thomas, director of Schroder Polska, the Polish subsidiary of merchant bankers Schroders, says he is puzzled why more companies have not yet adopted the approach.

"The Privatisation Through Restructuring programme is specifically focused on the medium-sized companies in Poland," he says. Under this programme, a management group restructures and then privatises small and medium-sized enterprises in return for a fee, profit sharing and a commission on the

transfer of shares to investors.

It contrasts with the Mass Privatisation Programme - in which 33 foreign and domestic fund managers are being selected to run 600 state-owned companies.

"I have spoken at several conferences to try to open potential investors' eyes to the possibilities of investing in Poland," Thomas says. "Poland has had a reputation of being dominated by large industry." One reason for the relative lack of interest in smaller Polish companies is a shortage of support for

investors. The most comprehensive government investment guarantee scheme for eastern Europe is provided by Germany. But most of Germany's Mittelstand companies have been more interested in manufacturing plant in the Czech Republic, on the doorstep of their domestic market.

There are other obstacles in the way of buying a manufacturing base in eastern Europe. Maats says it took at least 20 visits to negotiate the purchase of Temed. He says no one should underestimate the

demands such deals make on top-level management time. "It has taken me a year to do the deal. I spent three years restructuring the Brazilian debt so I know something about negotiation."

The financial structures are often complicated. A similar deal to buy Elzab, another Silesian state-owned company that makes mainframe computer monitors for the Russian market, fell through because Metric could not get the banks to agree the restructuring terms.

Maats eventually agreed a deal with the Ministry of Privatisation in which Metric first takes management control and an option to buy Temed for \$1m (\$200m) within two years. Central to the deal was agreement from Temed's banks that they would write off half their debt and waive the substantial interest charge on the balance for a year.

Any company considering this route must contend with cultural differences arising out of a history of central planning. Maats says this message came home when Metric was developing a plan with Elzab's management. A team that was once in charge of 2,500 people, "it took us six weeks to realise the people had only ever implemented a plan coming down from the central plan. They had never initiated."

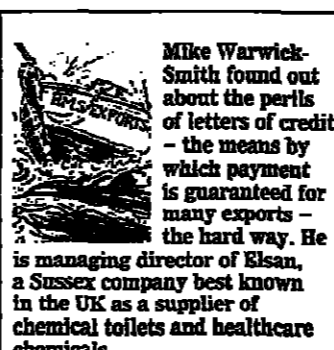
Metric had one big advantage that many unquoted companies could not turn to: a pile of cash. Last year, Maats reversed three companies, including the Epos till company, into a quoted shell, raising more than £700,000 in the process. But much of the leg-work was done before this cash was raised.

Nevertheless, buying a manufacturing base in eastern Europe is a route more intrepid smaller companies might consider if they are well enough structured to allow senior managers the time to negotiate deals. "If someone has the vision and a plan then Poland is ideal because the people are used to implementing a prepared plan," Maats says.

He says many factories, particularly in what is becoming known as Silesia Valley, own large amounts of technology and sophisticated computer-controlled machining centres. And because the factories were hugely over-staffed, they have plenty of manufacturing space.

"The real advantage is that there is highly qualified manpower with a historic infrastructure which you can use for making new things in new ways," he says. "What was done in the Far East can now be done in eastern Europe. There is better training, it is closer to market, no investment problems and the finance is available more easily across the region."

That is the theory. Time will tell whether Metric was right to go to Poland and the big companies were right to eschew the region.



Mike Warwick-Smith found out about the perils of letters of credit - the means by which payment is guaranteed for many exports - the hard way. He is managing director of Elsan, a Sussex company best known in the UK as a supplier of chemical toilets and healthcare chemicals.

Elsan was shipping disinfectants to a new customer in the Middle East and one word was misspelled in a document. The ship was loading. Correcting the error might mean having to send the consignment on a later ship - and risking losing the order. He decided to let the shipment go, but his new customer's bank refused to honour the letter of credit because the documentation was not 100 per cent correct.

Elsan stood to lose about \$11,000 - no small sum for a company turning over £2m, about 10 per cent of it in export markets.

Everything worked out in the end because the customer came back for more. Buyer and seller agreed for the cost of the initial consignment to be paid off in instalments of cash, and Warwick-Smith never made that mistake again.

But many other people still do. Ian Campbell, director-general of the Institute of Export, says at least half of all letters of credit and their associated documentation have to be amended before payment can be made.

Steve Beresford, NatWest's export finance specialist in Manchester, says: "Compliance with credit terms and conditions is never easily achieved. About 65 per cent of documents presented to us in Manchester in 1993 were discrepant on first presentation."

In theory, letters of credit should be easy. An export customer opens one with his or her own bank. It amounts to a promise by the customer's bank to pay the exporter's bank when the goods have been delivered.

To ensure delivery and payment, various questions must be settled, such as currency, method of shipment, port of delivery, inspection certificates prior to dispatch - proving the goods are what they are supposed to be - and correctly descriptive accompanying bills of lading during shipment. Time limits are set for delivery and the letter of credit's validity.

If the details do not match exactly on all documentation,

EXPORTING  
It pays to be precise  
Letters of credit are examined by Ian Hamilton Fazez

or specified procedures are not followed, the letter of credit may not be honoured. Details do not necessarily have to be "correct" - such as through misspelling or typing errors in the letter of credit - provided they are consistently wrong in all the documentation.

"It's mind-boggling," says Campbell. "You have to check every word to make sure documents match each other and completely satisfy the conditions in the letter of credit. It's the exact match that counts, not the intention, meaning or even spelling. You can forget all this 'My word is my bond' stuff."

Nor are all letters of credit what they seem. Michael Palmer is export director of Tenby Electrical, a Birmingham manufacturer of light switches and connectors. The company turns over about £24m a year and exports are now at £8m. He received a £100,000 order in Nigeria, but had never heard of the bank issuing the letter of credit. Also, it specified shipment by air freight, which enables goods to be shifted - and stolen - faster at the receiving end.

"We asked our UK bank to confirm the letter of credit. It turned out the bank in Nigeria did not even exist. It was a straightforward fraud," Palmer says. Other companies have been caught out in similar scams.

Banks charge for confirming letters of credit. If checking leads to amendments, there will be a further fee. Mark Runiewicz of the Bank Relationship Consultancy, which tries to get clients better deals with their banks, urges caution.

"If bank charges work out at £150 and the transaction is only worth £2,000 - and that's not

untypical as an export order for a small company - you may be wiping out the profits of the sale anyway," he says.

He also cites the example of an international bank which acted for both an exporter and his customer. The London branch charged £250 for confirming a letter of credit from the Hong Kong branch - in effect for confirming its own paper.

Runiewicz says exporters need to think more carefully about letters of credit. Banks may like them because they offer security, but they are not always best, he says, for clinching an export sale and they add cost. Their complexity also increases the risk of things going wrong.

"The exporter should assess country risk and bank risk," he says. He thinks trade within the European Union will increasingly be done on open account, as in the UK.

Both Warwick-Smith and Palmer say the basic marketing principle of knowing your customers and markets is what really matters. In some countries, payment in advance may be the only safe way of doing business. Letters of credit and export credit insurance may be necessary in others, but regular customers who pay on time can earn the right to trade on open account wherever they are.

Barclays now offers an on-line system for letters of credit and export documentation, useful for companies with many transactions capable of standardisation. There are also several stand-alone software packages available. Generally, however, these systems are more useful for importers wanting to open letters of credit in the UK.

For smaller businesses, simple checklists of what to do when a letter of credit arrives in the post may be more useful than anything else. UK clearing banks have their own versions, some better than others, so it is worth collecting them. Sitpro, the Simpler Trade Procedures Board, an independent agency supported by the Department of Trade and Industry, also offers a checklist, which the Institute of Export is adopting under its own logo to offer members.

Runiewicz recommends the human brain. "Software and gizmos are all very well, but they don't solve the fundamental problems," he says. "Giving credit or not is a matter of judgment. Exporters can help themselves a lot more. Letters of credit are like the instructions for making model aircraft. They only work if you follow them properly."

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## LEGAL NOTICES

## IN HER MAJESTY'S HIGH COURT OF JUSTICE IN THE ISLE OF MAN CHANCERY DIVISION

## IN THE MATTER OF THE COMPANIES ACT 1931 TO 1992 AND IN THE MATTER OF THE HIGH COURT ACT 1991

## AND IN THE MATTER OF ISLE OF MAN BANK LIMITED AND IN THE MATTER OF LOMBARD BANK ISLE OF MAN LIMITED

NOTICE IS HEREBY GIVEN that a Petition was on 1st March 1994 presented to The High Court of Justice of the Isle of Man by the above named Isle of Man Bank Limited ("the Bank") for (inter alia):

- (1) A declaration that certain banking agreements have been by implication novated from Lombard Bank Isle of Man Limited to the Bank; and
- (2) An Order sanctioning the transfer by Lombard Bank Isle of Man Limited of the monies held in certain accounts to accounts held with the Bank, pursuant to the Scheme annexed to the Petition; and
- (3) Such further and other relief as the Honourable Court shall deem appropriate.

A copy of the Petition (having annexed thereto a copy of the Scheme) together with copy Affidavits will be open to inspection at the address figuring below during normal business hours on any day (other than a Saturday or Sunday) prior to the hearing of the petition.

AND NOTICE IS HEREBY FURTHER GIVEN that the Petition is directed to be heard before His Honour John William Corrin at the Chancery Court to be held at Douglas on the 9th March 1994 and any person who claims to be adversely affected by the carrying out of the Scheme may appear at the time of hearing in person or by Counsel for that person, in which case such person is requested to give notice in writing of his intention to appear with the grounds of his objection to the under-mentioned Advocates.

A copy of the Petition (having annexed thereto a copy of the Scheme) will be furnished to any person requiring the same at the address figuring below at any time before an order is made on the Petition, on payment of the regulated charge for the same.

Dated this 3rd day of March 1994  
Cains  
Advocates  
15 Athol Street  
Douglas  
Isle of Man  
IM1 1LB.

By Order of R.A. Upson Esq., Trustee in Bankruptcy at:  
C.L. McBride - Workington County Court No. 5 of 1990.

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## LEGAL NOTICES

In the High Court of Justice 1994 No. 0509

Chancery Division

Re: In the Matter of

THE COMPANIES ACT 1948

AND IN

THE MATTER OF

MAGNUS ESTATES LIMITED

Notice is hereby given that a petition presented to the High Court of Justice of the Isle of Man by the above named Magnus Estates Limited ("the Company") for (inter alia):

- (1) A declaration that certain banking agreements have been by implication novated from Lombard Bank Isle of Man Limited to the Company; and
- (2) An Order sanctioning the transfer by Lombard Bank Isle of Man Limited of the monies held in certain accounts to accounts held with the Company, pursuant to the Scheme annexed to the Petition; and
- (3) Such further and other relief as the Honourable Court shall deem appropriate.

A copy of the Petition (having annexed thereto a copy of the Scheme) together with copy Affidavits will be open to inspection at the address figuring below during normal business hours on any day (other than a Saturday or Sunday) prior to the hearing of the petition.

AND NOTICE IS HEREBY FURTHER GIVEN that the Petition is directed to be heard before His Honour John William Corrin at the Chancery Court to be held at Douglas on the 9th March 1994 and any person who claims to be adversely affected by the carrying out of the Scheme may appear at the time of hearing in person or by Counsel for that person, in which case such person is requested to give notice in writing of his intention to appear with the grounds of his objection to the under-mentioned Advocates.

A copy of the Petition (having annexed thereto a copy of the Scheme) will be furnished to any person requiring the same at the address figuring below at any time before an order is made on the Petition, on payment of the regulated charge for the same.

Dated this 4th day of March 1994  
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Bridgwater, RUC  
Solicitors for the above named Company.

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A notice was placed in the Official Journal of the EC on 18 February 1994. Tenderers will be sought from suitably qualified and experienced private sector organisations. The existing in-house team will also be invited to bid.

Organisations interested in tendering should have regard to the notice in the Official Journal and respond by 5 April 1994. Copies of the notice can be obtained by writing to the address below. An information meeting is being held by the CSO on 21 March 1994 and organisations wishing to attend should contact Mr Stuart Cella of the CSO's Retail Prices Branch on 071 217 4357 (Fax 071 217 4367).

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## Apple launches second Newton

Apple Computer, which missed the target with its first Newton hand-held "personal digital assistant", is taking a second shot. Last week the company launched a cheaper version that corrects some of the shortcomings of the original product.

The Newton MessagePad 10 is a pocket-sized electronic pad on which users can jot messages, diary entries, contact notes and the like, using a special stylus. Like the original, however, this product fails to live up to the expectations created by Apple. Apple have made only incremental improvements.

The new model is narrower and longer than the original, and has a cover to protect the screen. It also has more memory, for data storage, and longer battery life. The US price has dropped to \$599 (\$410) from \$699.

Most significantly, Apple has attempted to overcome Newton's notoriously unreliable handwriting recognition capabilities.

Because users of the original Newton complained that they could not simply jot down notes without having to correct misunderstandings, the new Newton includes "deferred handwriting recognition". The user can scribble away and then later go back to make corrections.

The new Newton can, when requested, attempt to recognise letters rather than matching handwritten words with those in its dictionary. This is particularly useful for names, acronyms, technical terms and abbreviations.

Still to come, however, are wireless communications facilities for the Newton. Apple is working with Ardis and Ram Mobile, two US providers of wireless data communications services.

The third Newton, due in September, will be a tablet-sized (approximately 14 in by 8 in) device with a screen twice as big as the pocket versions.

Louise Kehoe

One of Japan's many mysteries is how to avoid becoming lost in Tokyo. The characterless and poorly sign-posted Tokyo street plan, full of tangled alleys and dead-ends, occasionally punctuated by raised expressways, is a navigational nightmare for both locals and foreigners.

Help may be at hand, however. A satellite network launched by the US defence department looks set to produce a consumer product revolution. Electronic car navigation systems promise to help people who find it difficult to read maps not only in the Japanese capital but throughout the world.

The network, known as the Global Positioning System (GPS), is based on 25 satellites which cover the globe. They were launched to help military aircraft, ships and vehicles locate their position. A side benefit is that they can be used to locate civilian vehicles.

The satellites, equipped with a precise atomic clock, transmit both the time and their orbital position at regular intervals. A receiver in the vehicle calculates its position by measuring the time it takes for the satellites' signals to arrive. An on-board computer needs to receive data from three satellites simultaneously to calculate the vehicle's position to within 30m.

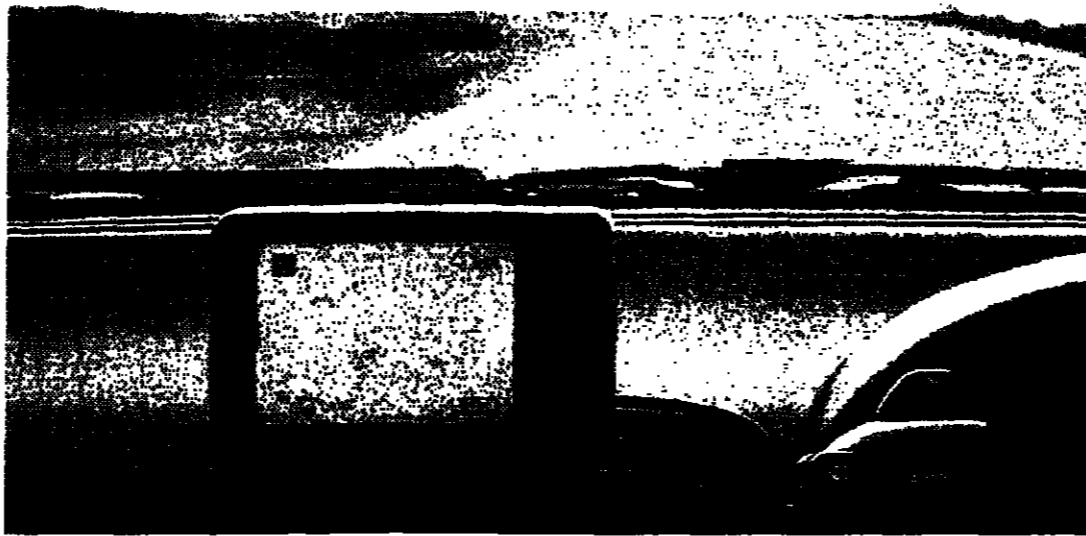
A liquid crystal screen then displays a map of the local area and the vehicle's position. The details for the map of Tokyo are taken from a CD-ROM that supplies geographical details of the whole of Japan. As the car moves, so its position is constantly updated. Some systems can show the destination, the direction being taken, and the distance left to travel.

The driver can use a remote-control device to make the display zoom from individual streets to a bird's-eye view of entire cities, regions and highway networks. A talking help feature can even indicate when to change direction.

The GPS system is not perfect. Jun Ichi Shibata, general manager of the new media division at Pioneer, the Japanese electronics group, admits that in heavily built-up areas tall buildings create reception problems. In the worst cases, says Atsushi Matsuda, general manager of the mobile electronics group at Sony, the receivers can obtain a fix only half of the time.

One way of improving accuracy is to use dead reckoning. A combination of geomagnetic sensors or gyros can be used with speed sensors to determine the distance and direction travelled by the vehicle.

Another system is to use beacons installed along the road to fix the car's location. Some manufacturers have also developed software that uses the premise that cars only



An on-screen map indicates the car's position: some systems show destination, direction and distance left to travel

## Drivers on the right track

A better sense of direction will soon be widely available with electronic car navigation, writes Paul Abrahams

drive on roads, and tries to match the road pattern against the possible location of the car.

In spite of these other systems, both Sony and Pioneer, which dominate the sector with more than 90 per cent market share, expect GPS to become the dominant technology, not least because of its relatively low cost. The cheapest retrofit systems can be installed for as little as ¥145,000 (£923) including a 4 in liquid crystal display. Top-end equipment costs as much as ¥800,000.

Sales growth of car navigation systems has been explosive, though from a low base, says Shibata. Only 9,000 units were installed in 1991, but sales could reach 250,000 this year. His company reckons the market was worth about ¥50bn during the 12 months to March 31 last year.

Sony and Pioneer control most of the retrofit market, but the original equipment market - supplying navigation systems to vehicle manufacturers - is much more fragmented. Suppliers include Alpine, Kenwood, Clarion, Nippon Denso, Aishin, Mitsubishi Electric, Sumitomo Denko, Toshiba and Matsushita.

Although the Japanese Navigation Association has set up two

standards, few of the competing systems are compatible. Without economies of scale, the cost of developing software remains high, says Matsuda. This could limit market growth, he warns.

Both Pioneer and Sony believe that navigation systems could become extremely significant consumer products if adequate software can be developed.

"In Japan we have high hopes for a large market to develop, given the success of navigational systems already. Adding value to the maps will make all the difference," says Matsuda.

The Japanese government is sponsoring a beacon-based technology, the vehicle information communication system (Vics), which could give the market a big boost.

The system, which uses high frequency radio signals, is designed to provide details of accidents, traffic conditions, weather, route recommendations and even parking availability. The idea is that such information could be incorporated on the digital maps.

Shibata says Vics will give a huge push to the market, although exactly when the infrastructure will

be completed remains unclear. Installation is under way in Tokyo, Osaka and Nagoya, and a nationwide system is being considered. However, implementation is bogged down in discussions between the various ministries involved. An alternative system based on personal communication networks is being sponsored by the Tokyo police.

Vehicle navigation systems will soon be available outside Japan. Sony is launching a system with Elak, a US-based group owned by Rupert Murdoch's News Corporation which has supplied the digital maps. Pioneer expects that it will launch navigation products in the US and Europe in 1995, although the exact timing depends on the availability of software.

Sony says it is looking at how best to protect such expensive hardware from theft. This is not a problem in the Japanese market, but could limit growth in the US and Europe.

The prospects for "galjin" (foreigners) lost in Tokyo remains bleak, however. Sony and Pioneer say the market for maps of Japan using roman script is simply too small for software manufacturers to justify the investment.

The betting industry is trying out computers, says Max Glaskin

## Bookmakers have a flutter

British bookies are having a flutter with new technology in an attempt to win customers. Although the 9,800 off-course betting shops in the UK handle a substantial part of the gambling industry's £3.5bn turnover, they have been slow to become computerised. Bookmakers are not gamblers themselves and their customers are conservative.

Interactive touch-screen betting machines are being tested in two shops run by the small Hampshire chain of Betpoint and in two of Ladbroke Racing's 2,000 shops - in Dudley, West Midlands and Newcastle. Ladbroke's financial director Paul Usher says that if they prove popular he could spend £10m "quite easily and quite quickly" to install them throughout the country.

The Betpoint customer terminal is a touch-sensitive video screen, on-line to a network of computers at the company's headquarters. The screen shows all the sports for which betting is available; the user touches a sport option to list all the relevant events. By choosing and touching, customers can get down to a list of runners in a specific race. They can even read form detail about horses, riders and trainers in race meetings.

Next, they choose the type of bet and the stake. Coins or notes go into a slot and the machine prints out a betting slip. A human cashier pays out to winners.

Betpoint managing director Chris Latter was a systems designer and formerly head of computer services for commodity broker Philip Brothers. He believes his customer touch-screens will cut staff and other costs. Combined with a behind-the-counter computerised settling system, which ensures accurate payout and helps the managers to assess their liabilities in real time, the Betpoint package costs £150 a week. The average betting shop in the UK turns over about £7,000 a week.

Usher does not see automation as a route to cutting staff. "We are primarily interested in improving customer service."

Ladbroke is testing a modified version of the Betpoint system in two shops. It also has a second, similar system, Form Challenge, that allows the customer to enter his own knowledge of racing into the touch-screen terminal and see a race simulation before placing a bet.

Form Challenge has been developed by UK software company ISP and uses form data from CNS of Hull. It is partly aimed at attracting younger punters, who are more familiar with video screens. Bill Hagarth, IT director at William Hill, which has 1,700 shops, is cautious about luring younger customers. "The existing bet capture and settling operation is extremely efficient," he says. "And we must not alienate any of our customers."

The most computerised betting organisation in the world is Britain's Tote, the body responsible for managing on-course pooled betting at race meetings. It must pay out winnings immediately, based on the total of all stakes received right up to the race start. All of its 160 off-course shops, 64 on-course shops and its 160-strong operator telephone betting service are networked to a Stratus mainframe in Wigan.

It has installed optical mark readers in 1,000 betting shops. Punters mark a pre-printed multiple choice card, which the cashier feeds into the reader. Within a second the data are in Wigan.

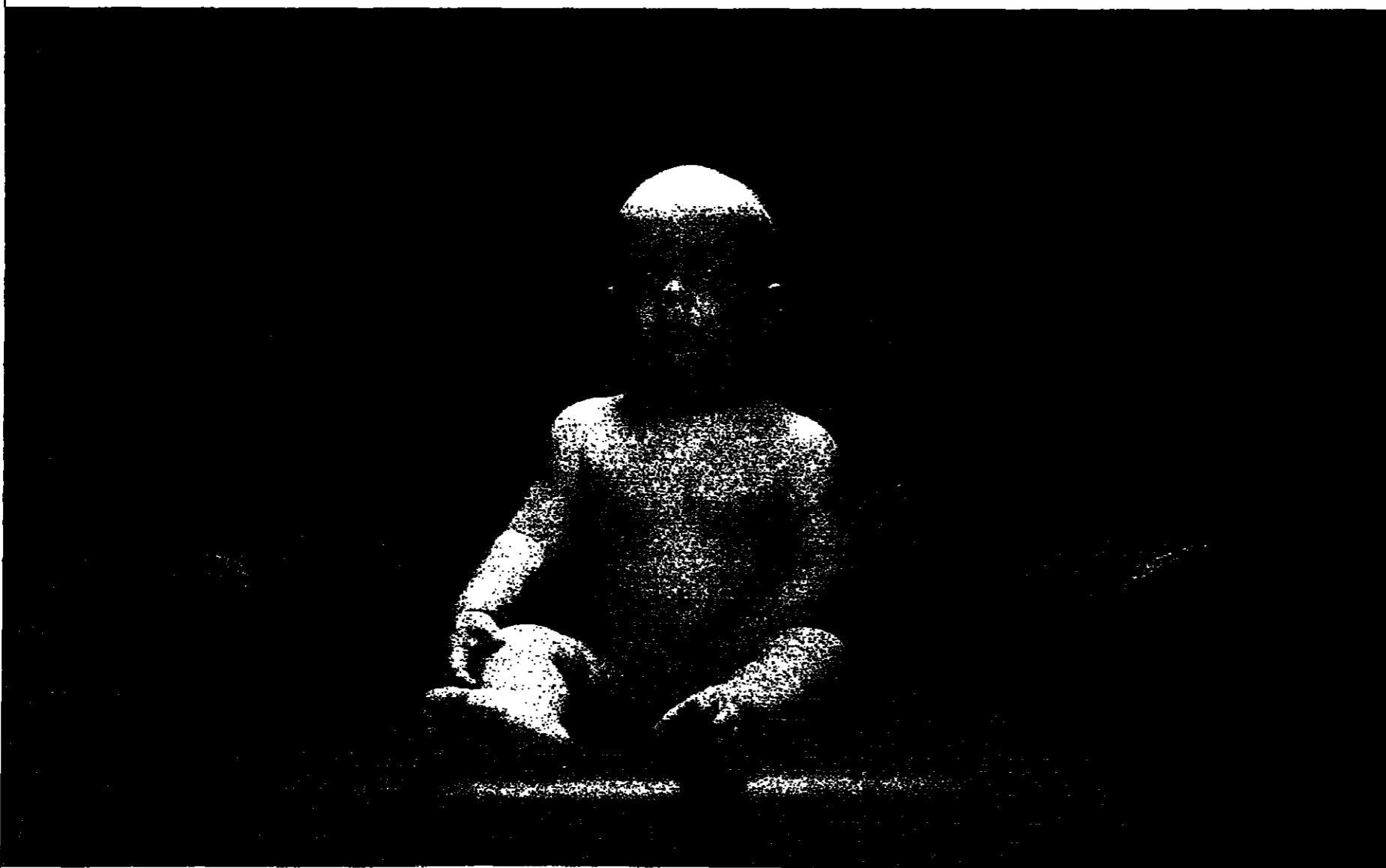
The Tote's IT manager Bob Cubitt says the organisation has dabbled with bet vending machines but again there is caution about upsetting loyal customers: "We all want to make betting exciting and fun. The technology is there but the customer interface must be right."

Will the punters even need to go into a betting shop? Already Betpoint sells software for £20 that turns any PC with a modem running Windows into an on-line betting terminal. Macintosh and Dos versions come out this summer, as well as a hand-held console that does the same thing as a domestic television set. Technology could make betting so easy that betting shops disappear.

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One of the most appealing musical evenings in town: Gillian Webster and Jonathan Summers in Philip Prowse's campy elegant production

Opera/David Murray

## 'Pearl Fishers' revived

The imperishable "friendship" duet for the leading men in Bizet's *Les Pêcheurs de perles* (1863), which is the one bit of the opera that everybody knows, comes early in the first act. While it got its vociferous applause at Saturday's ENO revival, somebody behind me remarked, "Well, we can all go home now!"

Not fair: amidst all the shapely, dewily original music that follows, the duet returns often enough (in frank reprisal or thinly disguised) to delight its most besotted devotees. Besides, in Philip Prowse's refurbished, campy elegant staging, the opera - virtually an *opéra comique* - offers one of the most appealing musical evenings in town.

Sung here in very plain English without poetical pretensions, *The Pearl Fishers* is set in a never-never-land Ceylon, an exotic French-colonial dream à la Pierre Loti. There is ample excuse for mock-Eastern pomp, which might submerge the real charms of the opera. Altogether, instead Prowse opts for airy grace and light - reserving decadent splendour for a few prominent objects like the central altar, and for some of the costumes.

Beyond those there is only the wreck of a ship, and a giant awning with hanging lamps, and a large, knowingly tacky circle of light-bulbs in the sky. They serve very well - as does Prowse's extra addition to the cast-list: Imogen Claire as an omnipresent priestess (or something: maybe the High Priest's concubine), coiling and arcing balletically throughout like a malign *fin-de-siècle* spirit, silently manipulating the action. Against that tongue-in-cheek background, the romantic tri-

angle can stand and deliver with unaffected candour.

Of the two sworn friends in love with the virgin priestess Leila, Jonathan Summers makes a vehement Zurga, the baritone lover who eventually does the decent thing, and as the luckier Nadir - tenor, of course - young John Hudson offers enough sensitive feeling to compensate for some imperfect suavity in Bizet's vocal line.

Leila herself is Gillian Webster, a bright soprano: lovely liquid depths in her middle range, mature artistry in her dramatic pleas. Easier top notes, secure pitch and less of a petulant Hollywood starlet's manner would make her an ideal heroine, but she is already a vivid and fascinating one.

As the high priest Nourahad, Andrew Greenan wields his doughy bass-baritone to menacing effect. The keen ENO chorus achieves an almost French crispness (better than most *chœur*-French choruses can manage nowadays), and the Viennese conductor Alexander Sander paces the score with clean style and despatch. Bits of Wagner's *Tannhäuser* and even *Tristan* surface here and there, the more disarming because Bizet adapted them so coolly to his chaste Gallic idiom.

All in all, only a stony heart could fail to respond to this artful, ever-fresh music; if anything, the richly textured terms of the "drama" set it off in enhanced relief.

Co-production with Opera North. In repertory at the Coliseum until April 28, with a new conductor and principal singers in the later performances

## Dali: the myth unmasked

William Packer reviews a revealing exhibition at the Hayward Gallery

Salvador Dali: *The Early Years* is one of those comparatively rare exhibitions which properly challenges one's established view of its subject, and does so positively. If it does nothing for Dali the older man - that is to say Dali the poseur, self-publicist, self-mythologiser - it makes him, at least at first, more interesting, substantial and credible a figure.

He was born at Figueras in Catalonia in 1904 and died not far away, at the little port of Cadaques, in 1989. This exhibition leaves us with Dali in 1931, at the age of 27 just teasing himself into his mature persona as an artist and on the brink of his brilliant, preposterous career. Of all the artists of our century, he alone stands with Picasso, the patronymic alone enough to summon up the very idea of modern art to a popular public, innocent of Matisse or Pollock or Andy Warhol. Yet while Picasso, for all his fame, remains still to a great extent an object of controversy and scepticism, Dali has always been truly popular, accepted and familiar quite as much in his work as in his gleefully public personality.

Such is the nature of true celebrity, and it says a great deal indeed for the imaginative power of Surrealism that Dali should still be every schoolboy's favourite modern artist.

Oh yes: but then, you say, he was always so brilliant a draughtsman and so wonderfully meticulous a painter. Just look at that immaculate technique, those soft watches and flaming giraffes, and that vertiginous Christ on the Cross. Clearly he was a genius, whatever that is, and we do respect a genius. Such is the myth of himself that Dali was so assiduous in promoting, and is here so usefully exploded.

What we discover is no precocious and preternatural talent, but only a normally interested and sensitive, if unacademic, adolescent. Far from demonstrating any exceptional ability, the pages shown here of school-boy illustration, based on the graphic conventions of contemporary comic journals, show the difficulty he had with anything but grotesque distortion and exaggeration - the staple of every school magazine there ever was. But the interest is certainly there, as well as a certain inventive energy and ambition.

So from the schoolboy to the student painter at the local art school in Figueras, and again we find at first nothing exceptional, the work being fairly standard student stuff. Sometimes it is clumsy and ill-formed, but intelligent and engaged in its response to impressionism and symbolism and the more decorative aspects of expressionism. He begins to write a novel. He paints a number of

self-portraits, romantic, self-dramatising images, long hair, broad hat, pipe in mouth, as moody as only a self-conscious 17-year-old can be.

At 18 he wins a place at the Academy of Fine Art in Madrid, where he spends the next four years, for one of which he is rusticated for riotous indiscipline. And now emerges not yet the brilliant artist, but certainly the brilliant student. In a remarkable sequence of paintings we follow him as he comes to terms with the currency of the international avant-garde. He does so not with any profound originality, but with a steadiness and intelligence that does him credit. The paradox is that in his unselfconsciousness he is never less than true to himself.

Picasso is his commanding interest at this time, and Picasso in all his aspects - cubist, proto-surrealist, the neo-classicist of the nudes on the beach and the realist of the portraits of his wife. And yet Dali is also looking elsewhere, and in a remarkable painting of a basket of bread, of 1926, the year of his final expulsion from the Madrid Academy, he pays direct homage to the great Spanish realist tradition and to Zurbarán in particular. He also looks to the modern Italian *metafisico*, to de Chirico, Sironi and, in one huge schematic still-life especially, to Carrà.

Most impressive of all are the portraits and figures - his sister, Anna Maria, at Cadaques; a girl in a white dress that may well be her, seen from behind; his father. All are solid, simple and unaffected in their realisation, rich in the paint and bold in the drawing, and yet seen with that facile clarity that already hints at the obsessively microscopic precision of the work to come.

And then, from around 1927, begins the slide, slow at first but speeding up over the next few years, into the mannerism, self-consciousness and formulaic eccentricity alike of imagery as of behaviour, upon which his global reputation still rests. Other surrealists, such as Bunuel, with whom Dali was associated, stand as considerable artists by the work they did. But for Dali it was the open embrace of Surrealism that did for him, with its essentially arbitrary and literary imagery, and infinite scope for more of the self-indulgent same, and same again. The irony is only that it was Dali the student who was the more interesting and truer artist.

Salvador Dali: the early years; Hayward Gallery, South Bank SE1, until May 30, then on to New York, Madrid and Barcelona. Sponsored in London and Madrid by the Banco Bilbao Vizcaya.



Before the slide into self-indulgent Surrealism: Salvador Dali's 'Venus and Sailor', 1925

New York Theatre/Karen Fricker

## 'No Man's Land' on Broadway

The appearance on Broadway of a play by Harold Pinter is a rare enough occurrence to be worthy of mention: the current revival of *No Man's Land*, now playing at the Roundabout Theatre, deserves little more than that. Meaning and menace burble beneath the elusive surface of this, and indeed all, of Pinter's works, but surface, in this production directed by David Jones, is just about all we get - save a remarkable performance by Christopher Plummer.

It is little wonder that *No Man's Land* was, until recently, one of the least-produced of Pinter's plays. Ralph Richardson and John Gielgud's performances in its 1975 London premiere (which then played New York) were reportedly so memorable as to be called consummate, and other actors have been reticent to step into their shoes. *No Man's Land* did not

receive another London production until 1982, when Pinter himself appeared as Hirst, the ageing, alcoholic writer who lives in a Hampstead manse with two thuggish minders, with Paul Eddington as Spooner, the bedraggled and equally aged poet who weasels into Hirst's house - and, perhaps, his consciousness.

This production features Jason Roberts as Hirst and Plummer in the showman's role of Spooner - which he digs into with considerable skill and aplomb. His Spooner is pathetic, but strangely dandy, a faded dandy in a grumpy grey suit and silly, narrow wool scarf that he tucks compulsively into his lapels. Quick - desperate - to

please, he has a nervous giggle and a bizarre gait somewhere between a mince and a shuffle. Plummer's characterisation hints at an intriguing layer of homoeroticism in the text - let us not forget that Hirst met Spooner on the Heath and brought him to the house where he lives with two men who exist to please him - that is, sadly, not further exploited.

While Pinter's play is surely about (at least in part) the unbridgeable gulf between people, that "no man's land" which never moves, which never changes, which never grows older, but which remains forever, icy and silent, "Jones' production takes this idea too literally and too far - the almost total lack of connection between Hirst and Spooner keeps the audience from engaging in their word-play.

Robards, though physically commanding, seems mentally and emotionally absent. His declamatory Hirst is oblivious to Spooner from the start, and when, at the end of the first act, he does let down his guard ("Tonight... my friend... you find me in the last lap of a race I had long forgotten to run") his confidence seems to come, if not from nowhere, then probably from alcohol - certainly not from any growing relationship between himself and Spooner. The onstage atmosphere becomes

even less charged with the entry of Hirst's servants. Fresh-faced Tom Wood plays Foster as an immature braggart, while the role seems to call for a darker-hued approach. The usually reliable John Seitz as Briggs has the right bulky, hooded-eyed look for the role, but his throwaway demeanour and lazily executed Cockney accent bring with them not a touch of danger.

*No Man's Land* is full of mysteries about these men and their relation to one another, which will probably never be solved. It is a musing on the tenuousness of memory and the delicacy of human relations, and its pleasures lie in the ever-shifting suggestions of meaning and counter-meaning that accumulate as it unfolds. But performed as it is here, sans texture or mood, it seems less potent ambiguity than wilful obscurity.

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

Concertgebouw Tonight: Franz Welser-Möst conducts London Philharmonic in works by Bartok, Mozart and Shostakovich, with piano soloist Mitsuko Uchida. Tonight, Thurs, Sat (Kleine Zaal): Tokyo Quartet plays Beethoven string quartets. Thurs evening, Sun afternoon: John Adams conducts Royal Concertgebouw Orchestra in Adams and Copland. Sat afternoon: Alberto Zedda conducts Radio Chamber Orchestra and Chorus in concert performance of Rossini's *Elisabetta regina d'Inghilterra*, with cast headed by Marlene Dupuy and Rockwell Blake. Next Mon: Messiaen memorial concert. March 20: Alfred Brendel plays Beethoven (24-hour information service 020-671 4411 ticket reservations 020-671 8345). Sun afternoon at Beurs van Berlage: Philippe Entremont piano recital (320-827 0466). Muziektheater Tonight, Fri, Sun (reopening in repertory till March 11): Alberto Zedda conducts Dario's production of *Il barbiere di*

Stiviglia, with Vassily Gerello, Monica Bacelli and Hong-Shen Li (020-825 5455)

### BASLE

Casino Tonight: Vermeer Quartet, with cellist Antonio Meneses, plays works by Kurtag, Mozart and Schubert. Tomorrow, Thurs: Horst Stein conducts Basle Symphony Orchestra in Messiaen's *Turangalla* Symphony. Sat: Orpheus Chamber Orchestra, with soprano Barbara Hendricks (061-272 1178)

### BRUSSELS

Monnaie This month's production is Rossini's *Otello*, staged by Luca Ronconi and conducted by Gianluigi Gelmetti, with cast headed by Chris Merritt and Lella Cuberli. Next performances tonight, Thurs and Sun afternoon. Uwe Hellmann gives a recital on Fri (02-218 1211). Palais des Beaux Arts Thurs: Jos van Immerseel piano recital. Next Mon: Laredo, Robinson and Kalichstein Trio plays piano trios by Haydn, Mendelssohn and Brahms (02-507 8200)

### CHICAGO

CHICAGO SYMPHONY Christoph Eschenbach is conductor and piano soloist on Thurs, Fri, Sat and next Tues. The programme includes Beethoven's First Piano Concerto and Dvorak's Eighth Symphony (312-435 8888) THEATRE

● The Master and Margarita: this stage adaptation of Bulgakov's novel is a collaboration between Steppenwolf Theatre Company and

Lookingglass Theatre, one of Chicago's best small ensembles. Opens on Sat (Steppenwolf Studio 312-335 1650)

● The Miserer: Are Watson's play, in 1884 India, about the leader of a spiritual society who is investigated when her mystical powers are called into doubt. Till April 3 (Steppenwolf 312-335 1650) ● The Night of the Iguana: Robert Falls directs Tennessee Williams' late play, with William Peterson as the debased minister drawn to a New England seaport, played by Cherry Jones. Just opened (Goodman 312-443 9800)

### GENEVA

● Jean-Marc Luisada gives a piano recital on Thurs at Victoria Hall. Next Mon's concert by Orpheus Chamber Orchestra is sold out (022-310 9193) ● A new production of Billy Budd opens next Tues at Grand Théâtre, with cast led by Robert Tear, Rodney Giffy and Willard White (022-311 2311) ● Maly Theatre of St Petersburg presents its widely-acclaimed theatre spectacle entitled *Claustrophobia* daily till Sat at Comédie (022-320 5001)

### THE HAGUE

AT&T Danstheater Tonight, tomorrow: Dutch National Ballet in choreographies by Petipa, Glen Tetley and Massine. Fri, Sat: Nederlands Dans Theater in choreographies by Loral Hoche and Paul Lightfoot (070-380 4930) Dr Anton Philippaas Tomorrow: members of Hague Philharmonic

Orchestra play Spohr's Nonet and Beethoven's Septet. Thurs, Fri, Sun afternoon: Janos Fürtos conducts orchestral works by Haydn, Grieg and Dvorak, with piano soloist Tiziana Fabbricini. Next Mon: Gábor Pócher conducts Netherlands Chamber Orchestra in a Schubert programme, with violin soloist Ernst Kovacic (070-380 9810)

### LAUSANNE

Théâtre Municipal A new production of Gluck's *Iphigénie en Tauride* opens on Sun, with cast including Audrey Michel and Simon Kenyedy. Repeated March 15, 17, 20, 23 (021-312 6433)

### VIENNA

OPERA Staatsoper Tonight, Fri: ballet mixed bill. Tomorrow, Sat (also next Wed) and Sat: Marion Lescaut with Tiziana Fabbricini. Thurs: Samson at Dalia with Balboa and Carreras. Sun: Il trovatore. March 18, 21, 23: Carlos Kleiber conducts Der Rosenkavalier (51444 2955) Volksoper Tonight, Sat: Donald Runnicles conducts Lady Macbeth of Mtsensk, with cast headed by Rebecca Blankenship. Tomorrow: Bizet's *Pearl Fishers*. Thurs: Eine Nacht in Venedig. Fri: Der Vogelhändler. Sun: Die Zauberflöte (51444 2959) CONCERTS Musikverein Tomorrow, Thurs: Wolfgang Sawallisch conducts Vienna Symphony Orchestra in Beethoven's Second Symphony and Bruckner's Seventh. Fri and Sat afternoon, Sun morning: Zubin Mehta conducts Vienna

Philharmonic Orchestra in Wagner, Schubert and Strauss. Fri evening: Alfred Brendel plays Beethoven piano sonatas. Next Tues and Thurs: Dmitri Hvorostovsky song recital (51444 2959) Konzerthaus Sat and Sun: Sándor Végh conducts Vienna Chamber Orchestra in works by Veress, Mozart and Haydn, with piano soloist Zoltan Kocsis. Next Mon: Borodin Quartet (712 1211) THEATRE

Burgtheater has a new production of Ibsen's *Peer Gynt* directed by Claus Peymann (51444 2959). Repertory at Akademietheater includes David Mamet's *Oleanna* and Pirandello's *Six Persons in Search of an Author* (51444 2959). Raimund-Theater has a German-language version of the Kander and Ebb musical *Kiss of the Spider Woman* (Wien-Ticket 58885). A new production of John Osborne's *The Entertainer* opens at Theater in der Josefstadt on March 17 (402 5127)

### WASHINGTON

OPERA/CONCERTS ● Washington Opera ends its season at Kennedy Center Opera House with *Un ballo in Maschera* and *Madama Butterfly*, in repertory till March 20. Richard Margison and Lisa Garsen head the cast in the Verdi. Yan Van Wang sings the title role in the Puccini (202-416 7800) ● Mettiev Postropovich conducts National Symphony Orchestra's concert this week in Kennedy Center Concert Hall. This evening's soloist is percussionist Evelyn Glennie. On Thurs, Fri afternoon and Sat, Horacio Gutierrez plays

Tchaikovsky's First Piano Concerto. Other Kennedy Center events include a piano recital by John O'Connor on Thurs (202-467 4800) ● Günther Herbig conducts Baltimore Symphony Orchestra and Chorus in Beethoven's *Missa Solemnis* on Thurs, Fri and Sat at Baltimore's Joseph Meyerhoff Symphony Hall (410-783 8000) THEATRE

● The Sisters Rosensweig: Wendy Wasserstein's Broadway hit about the reunion in London of three American Jewish sisters. Opens tonight at Eisenhower Theater (202-467 4800) ● Sight Unseen: Donald Margulies' play about an artist facing challenges to his background, beliefs and soul. Opens tonight at Olney Theater (301-924 3400) ● The Wash: Philip Kan Gotanda's play about the end of the 40-year marriage of an Asian-American couple. Directed by Joy Zimman. For Studio Theater. Opens tomorrow (202-332 3300)

### ZURICH

Opernhaus Tonight, Sun afternoon: ballet mixed bill. Tomorrow, Sat: La bohème. Fri: Die Zauberflöte. Sun evening: Salome (01-262 0909) Tonhalle Thurs: Cammina Quartet. Fri: Antoni Wit conducts Tonhalle Orchestra in Liszt's *Waldesrausch* memorial concert, including the Piano Concerto (Krzysztof Zimman) and Fourth Symphony (next concerts March 18 and 24). Sat: Garcia Navarro conducts Barcelona City Orchestra in works by Gerhard, Falla and Ravel. Sun: Alfred Brendel plays Beethoven piano sonatas (01-261 1600)

### ARTS GUIDE

Monday: Berlin, New York and Paris  
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington  
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Does the UK need a stock market for entrepreneurs? Ronald Cohen, left, and Sir Andrew Hugh Smith offer their views



PERSONAL VIEW

In the next few months, the London Stock Exchange is due to decide whether a separate market is needed, alongside the main "official list", to replace the Unlisted Securities Market, which the exchange plans to close. The debate can be reduced to a simple question: can one market cater for both large, stable companies and smaller, more innovative, faster growing, but less stable entrepreneurial ones? Experience in the US and UK suggests that the answer is no.

Entrepreneurial growth companies can be defined in this context as greenfield ventures, and companies with a short trading record, management buy-outs or buy-ins and companies in high-growth and high-technology sectors.

In the US, the Nasdaq exchange opened in 1971 in response to the burgeoning "over the counter" market for unlisted shares. By the end of 1993, Nasdaq had 4,600 companies trading on it, double the number trading on the New York Stock Exchange. Traditionally the market has been for entrepreneurial companies, especially those focusing on growth sectors such as electronics and biotechnology. But 60 per cent of today's most actively traded stocks in the US are listed on Nasdaq.

During the US recession, the number of "initial public offerings" - the first time a company's stock is offered to the public - fell from 970 in 1986 to 136 in 1990. Since then it has risen rapidly to 820 in 1993, the third-highest number since the market's opening. Nasdaq clearly has a distinct identity which appeals to entrepreneurial companies.

In contrast, the NYSE caters solely for larger, more stable companies. The average market capitalisation of the 2,351 companies traded on it at the end of 1993 was \$457m, against \$216m for Nasdaq.

In the UK, the USM was established 10 years later than Nasdaq, also largely in response to a growing over-the-counter market. It was cheaper and easier to access than the Official List, and its companies were typically smaller, younger and more entrepreneurial than those on the Official List. The fall in the number of new issues during the

## Special care for young companies



Ronald Cohen: the US experience shows that the stock exchange cannot cater for all companies

recession, from 108 in 1988 to seven in 1992, was more extreme than Nasdaq, but the volume of shares traded almost doubled between 1992 and 1993 (despite only five new issues last year) as interest in smaller companies revived.

The fall in new issues was exacerbated in 1990 by EC directives on the regulation of financial markets which eroded some of the differences between the regulations and costs of the USM and the Official List, and by the announcement of the USM's impending closure, due in early 1995.

The stock exchange, instead of anticipating the EC directives and maintaining a gap with the Official List by eliminating the requirement for a trading record on the USM in line with Nasdaq, interpreted the drop in the number of companies wishing to float as evidence of insufficient demand for such a market.

Two pieces of evidence are often used to justify the claim that the Official List caters effectively for all companies. First, the recent rush of new issues on the Official List - 180

during 1993, many of which were regarded as entrepreneurial companies which would in normal circumstances have gone to the USM. In fact this was partly because the market did not function as it should have in recession while, with a recovery in sight and a bull market, enthusiasm to invest in these companies has returned as investors know

**The exchange may view failures by entrepreneurial companies as a taint**

that they generally perform better than larger, more stable ones at this stage of the cycle. Second, the stock exchange's recent decision to relax its entry criteria for the Official List and allow access to health-care companies with no trading record. But why should biotechnology companies be singled out? Will the rules also be relaxed for other sectors such as electronics, special

materials or interactive media?

In fact it is possible that the decision to relax the rules will be reversed as soon as some of these companies fail, as they inevitably will. The exchange may view such failures among entrepreneurial companies as a taint on its position as a leading market for the largest companies. Its board, drawn from those primarily interested in large companies, may seek to protect the image of the Official List by adding new restrictions.

Already, by closing the USM, it has effectively raised the minimum trading record for companies seeking a listing from two to three years. It has also introduced rules for biotechnology companies which state that directors and promoters of these companies cannot sell shares for two years when the equivalent lock-up period imposed by the Securities and Exchange Commission in the US is six months.

The risk is that, in the next recession, these companies will find that access to equity through the Official List is again restricted

to large companies.

So a specialist market for high-growth entrepreneurial companies is essential. A particular management and marketing focus is needed to run a market that directs attention to the activities of entrepreneurial companies and attracts entrepreneurs.

Nasdaq has succeeded, not because of the trading system it employs nor its rule book, but because it is managed independently of the NYSE and the American Stock Exchange. It has a dedicated management team whose objectives are to sustain it through both the good and the bad times in the economy, to exploit opportunities and to defend it from external threats.

**N**asdaq has developed and sustained an image as the market for entrepreneurial growth companies, attracting new companies in new sectors as new technologies evolve.

It is this focus which attracts specialist marketmakers, bankers, brokers and institutional and private investors, who are primarily interested in entrepreneurial companies. Their involvement strengthens the market's ability to finance companies in recession and recovery.

This specialist market should be as highly regulated against fraud, as the Official List should cater for both institutional and private investors, and should be independently managed by a team with a specialist knowledge of entrepreneurial companies. In order to maximise liquidity, it should be seen as the first constituent of a pan-European market which would link national markets for entrepreneurial companies across the European Union.

It is clear, in the light of US experience, that the stock exchange cannot cater for all types of companies through a single market. If it wishes to provide an effective marketplace for entrepreneurial companies, in bear and bull markets alike, it can only do so through a separate market, independently managed and enjoying a distinctive identity.

*The author is chairman of Apex Partners & Co, the independent venture capital and corporate finance group. He was a member of the stock exchange's smaller companies working party*



PERSONAL VIEW

For more than 200 years, the London Stock Exchange has been the main source of equity funding for UK companies. That function is still its central role. Yet recently, concerns have been expressed about the capital-raising options open to smaller companies, which are the motor of economic recovery.

City investors, company directors, politicians and venture capitalists all have different solutions to the problem of improving capital availability for small businesses.

The stock exchange is committed to playing its part in providing all suitable companies with access to capital. The question is how that can best be achieved.

The stock exchange has to balance its statutory obligation to ensure investors are adequately informed about companies with the unavoidable regulatory cost to the businesses themselves.

It is often assumed that the cost of a listing on the stock exchange, typically between £250,000 and £500,000 - mostly paid to legal and other advisers - could be greatly reduced in an alternative market. But this could be done only by decreasing the level of investor protection. The readiness of investors to commit funds might then be correspondingly reduced.

Last year the stock exchange set up a working party to investigate whether the closing of the Unlisted Securities Market would create a gap in the funding arrangements for small companies and, if so, what might be done. The working party proposed replacing the USM with an "enterprise market" that would have a regulatory regime similar to that of the Official List and the USM.

The working party's contribution was valuable, but its report added little hard evidence of the demand for an alternative market of this kind, or of the needs it should meet. Nor did it solve the problem of initial costs.

Recent press comments suggest that the stock exchange has rejected the enterprise market proposals. This is untrue. Like any business planning a new venture, the stock exchange has commis-

## Two may be a crowd



Sir Andrew: exploring options

sioned research into the needs and concerns of small listed and USM companies, unquoted companies which may be considering a flotation, professional advisers and investors. The stock exchange also wants to find out whether investors would accept less detailed disclosure in the listing particulars and a lower

**The record shows how the stock exchange already supports smaller companies**

level of regulation. If not, it would be difficult to make any new market substantially different from the Official List. An additional question is how far regulation could, in practice, be reduced within the European Union regulatory environment.

It is worth recalling that the stock exchange established the USM in 1980 to provide young, entrepreneurial companies with the means of raising equity finance. It offered access to public capital to companies which could not qualify for a full listing, at much lower cost. It was a great success for some years, because of those qualities.

But the distinction between

the USM and the Official List was later eroded as a result both of EU legislation and of lower costs arising from changes in the official listing procedures of the stock exchange. These changes coincided with the downturn in the UK economy, and interest in the USM fell away rapidly.

Other distinctions between the Official List and the USM - and indeed the working party's recommendations - are, in practice, illusory.

For instance, the Official List is open to companies prepared to release 25 per cent of their shares into public hands, with a market capitalisation of as little as £700,000. In fact few, if any, companies of this size would find public capital a cost-effective way of raising finance. The total cost of listing makes this option unattractive for most companies valued at only a few million pounds. Although USM companies need release only 10 per cent of shares into public hands, many have chosen to release 25 per cent or more to avoid illiquidity.

The stock exchange has already taken steps to broaden the types of companies which can join the Official List. The revised Yellow Book rules, published last year, extended access to research-based scientific companies without a three-year trading record.

Several companies have used these particular rules successfully, and a working group is considering further refinements to the mutual benefit of companies and investors.

The record shows how the stock exchange already supports smaller companies. Of 180 new businesses listed last year, 58 were capitalised at £50m or less - a widely accepted delineation of a smaller company. There are now 600 of these on our main market, half of all domestic listed companies.

The stock exchange is committed to providing access to publicly subscribed capital to the broadest range of UK companies. We are actively examining how that range can be increased. In doing so we have to consider not only the interests of companies seeking capital, but of those who can provide it, not least so that they can have the confidence to invest.

*The author is chairman of the London Stock Exchange*

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution.

### Action overdue on tube initiative

*From Mr Stephen O'Brien.*  
Sir, In order to attract overseas investors to London, as well as relieve the misery endured by Londoners on a daily basis, we must have greater investment in London's public transport system. The private sector has a real opportunity to take a leading role in achieving this, under the government's Private Finance Initiative.

Accordingly, we are con-

cerned that one of the first proposals to follow the initiative - to replace the desperately old tube cars running on the Northern Line - is still awaiting a decision in principle by the Treasury.

Not only does a deal of this type make sound commercial sense, but it also meets Treasury guidelines for the realistic transfer of risk to the private sector - or at least, as the private sector has to date

understood the guidelines. This straightforward, imaginative project must be allowed to move ahead without further delay.

If new cars for the Northern Line cannot be secured, what future is there for private finance in public-sector projects?  
Stephen O'Brien,  
London First,  
5 Cleckland Place,  
London SW1V 6JJ

### Competitive tendering still holds

*From Kate Taylor and Mark Cook.*  
Sir, We should like to comment on the suggestion inherent in your reports "Rules on public contract tendering to be eased" (March 1) and "Conflict alleged on tendering rules" (March 2) that new Treasury guidelines on the tendering of public-sector contracts will imply widespread and radical changes to the current practice.

Your report of March 1 acknowledges that the guidelines "will not involve cases covered by European Union rules requiring competition". These rules catch most contracts for construction works exceeding £3,743,208 in value, supplies contracts exceeding £56,400 and contracts for a wide range of services where the contract value exceeds £149,728.

It can be seen, therefore, that the vast majority by value of central government procurement contracts will fall outside the new guidelines and will remain subject to a requirement of competitive tendering, in which the suppliers from across the EU may participate.  
Kate Taylor and Mark Cook,  
Pinsent & Co,  
3 Colmore Circus,  
Birmingham,  
B4 6BH

### Dig your way out of a jam

*From J A J Rees.*  
Sir, Your report "Channel tunnellers aim for Alpine projects" (March 3) suggests that there may be things for the tunnellers to do much nearer home.

Why not build an inner ring road round London, inside the infamous M25 and deep underground?

The construction could include large car parks with escalators or lifts for upward connections to the main London tube stations.

Such a project could keep the tunnellers going for years at a steady rate, and it would get the cars out of London, enabling the city to breathe again.

J A J Rees,  
7 Hollies Close,  
Newton Sobney,  
Burton-on-Trent,  
Staffordshire DE15 0SB

### Pollution costs catch up

*From Mallen Baker.*

Sir, Your section on Europe and the environment focused heavily on the costs of environmental legislation to industry (Can Europe Compete?, March 3). This is only half the story, because doing nothing about the environment is not a low-cost option.

Pollution created by one company lands extra costs on to others, or society, often at a level far higher than the cost of prevention. The damage being done to buildings, monuments and forests by acid deposition from sulphur pollution, for example, probably runs into billions of Euros.

This is a bill that will have to be picked up sooner or later. It will be a great deal cheaper if the bill is paid by preventing emissions at source, and fairer if this is charged to the polluter. It is only because such costs have been missing from

the balance sheets of companies and governments that skimping on the environment has ever created the illusion of economic commonsense.

In many sectors, improvements in environmental practice are about increasing efficiency in a way that assists economic performance. Worries about competitiveness in sectors where this is not so should be pursued through a new Gatt round designed to build a global framework for pollution control.

The need for such a step was widely identified during the tortuous and flawed progress of the Uruguay Round. It will be disastrous for us all if the global nature of many environmental problems puts a brake on progress because of narrow national interests.  
Mallen Baker,  
46 Fitzwilliam Road,  
Sheffield S2 2SL

### Swiss toll system could resolve lorry ban objections

*From Christian Carl.*  
Sir, Anyone who has hiked in the Alps will share the Swiss and Austrians' environmental and aesthetic concerns about the growing volume of lorry traffic through their valleys.

The approach chosen in the recent Swiss referendum, however, raises important questions as to how the problem should be remedied.

Much editorial space has already been given to the political costs of antagonising Switzerland's European Union neighbours as well as Austria by closing Swiss roads to lorries by 2004. There has been less debate over the economic costs.

It is a well-known fact that quotas introduce unnecessary distortions by failing to separate users at the margin from the rest.

A system of toll points at the borders within the country, with fares linked to distance travelled, weight per axle and emission, presents several clear advantages:

● By reflecting the marginal costs of environmental and road damage, the fares would push marginal freight transit towards alternative forms of transport (e.g. rail);

● Revenue raised from the tolls could be used in financing the development and expansion of trans-Alpine rail networks, thus capturing a

greater proportion of actual lorry cargo (and demonstrating the applicability of the system to Austria);

● Although the scheme would involve imposing fares on domestic traffic (removing one of the major sticking points with Switzerland's over the present discriminatory proposal), it may nevertheless be acceptable to Swiss voters, in view of fare structure described above which would primarily hit long-haul international traffic;

● From a practical point of view, the region, by nature of its geography, will not suffer from the diversion of lorry traffic onto minor roads, as is the case in France;

● A toll system might be more acceptable than a quota system to the EU with respect to existing transport agreements and within the framework of potential EU membership by the Swiss.

By installing a toll system, the Swiss could not only allay political objections and solve their environmental problem, they could also set the example and the pace for their immediate neighbours with the same concerns, as well as for those nations toying with the idea of road-pricing as a means of reducing congestion.  
Christian Carl,  
31 Meridian House,  
Clifton,  
Bristol BS8 1JL



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## FINANCIAL TIMES

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Tuesday March 8 1994

## Whitewater blues

Yesterday's headlines suggesting that the Clinton White House is now seriously embroiled in the Whitewater affair will have caused groans in many foreign ministries. Not that Mr Bill Clinton's administration is universally admired abroad. On the contrary, it has been the subject of much hand-wringing and eye-rolling over the past year. But the main charges against it were inexperience, and lack of sustained attention to foreign policy issues. The former defect is now beginning to be healed, in the nature of things, by the passage of time. The latter may not be wholly curable, but there have lately been signs of improvement. Nothing could be more certain to cause a relapse than for the president to get bogged down in a prolonged scandal.

The heartiest wish of all those foreigners who depend on or have to deal with the US must be that the affair could be got quickly out of the way. Alas, that is one thing that will certainly not happen.

The special counsel appointed in January, Mr Robert Fiske, has an open-ended brief to look into a broad range of matters concerning the business dealings of Mr Clinton and his wife Hillary when Mr Clinton was governor of Arkansas. His investigations are expected to take about 18 months, which would be a miracle of speed compared to the inquiry into the last big political scandal, the Iran-Contra affair. That was recently completed after seven years.

A better hope is that while Mr Fiske is burrowing his way through a mountain of obscure

evidence, public attention will move elsewhere and the administration will be able to concentrate on its political agenda. That was certainly what Mr Clinton and his advisers hoped would happen when Mr Fiske was appointed. So far the opposite has occurred, thanks to the clumsiness of some of those advisers, including the president's own legal counsel, Mr Bernard Nussbaum, who resigned on Saturday. He and nine other officials - five from the White House, four from the Treasury - have been subpoenaed by Mr Fiske to explain a series of meetings at which they discussed the scope of a federal regulatory inquiry into Madison Guaranty, the failed savings and loan institution at the heart of the Whitewater affair.

Those meetings may have been entirely innocent, but their purpose is not clear. Inevitably suspicions have been aroused of a cover-up, or conspiracy to obstruct the course of justice. No one in Washington has forgotten that it was such a cover-up, rather than the original misdemeanour, that led to the downfall of President Nixon 20 years ago.

There is as yet no reason to suppose that this affair will have any such dramatic dénouement. But its latest twist only reinforces the Watergate lesson. A president accused of wrongdoing, however trivial or implausible, must not only allow the matter to be independently investigated, but must bend over backwards to avoid any appearance of seeking to influence the outcome.

## Air logjam

Ambitious plans for creating an open skies regime on air traffic between the US and the UK have run into difficulties. The two governments and their airlines are now bickering about who is to blame and there is a real risk of a trade war over the issue.

How far yesterday's decision by British Airways to suspend further investment in its associate USAir is connected with this dispute is not clear. Commercial considerations on their own are probably explanation enough: until USAir has a viable restructuring programme in place, further investment will be money down the drain.

Nevertheless, the inter-governmental wrangle can hardly have helped. An essential part of BA's strategy is to link its trans-Atlantic flights with USAir's domestic US services through "code-sharing". But the US has threatened to cancel this code-sharing arrangement, which comes up for renewal on March 17th, unless its airlines secure greater access to Heathrow airport, especially Heathrow. Britain, in turn, has threatened to retaliate by cutting the number of US flights to Heathrow.

What on earth are two governments which profess to want a completely liberal air traffic regime between their countries up to? Unless they smarten up their act pretty sharply, they will damage the interests of trans-Atlantic passengers and lose their authority to lecture third countries about opening up their markets.

The snag is that both govern-

ments' negotiating agendas have been hijacked by their national airlines. This is damaging because the airlines, quite rationally, are lobbying for their own narrow interests not their country's broader national interests.

Each country's airlines would clearly prefer the other country's market to be opened while keeping their own closed. BA wants to be free to expand in the US but is determined to slow the growth of competition at its valuable hub at Heathrow. Similarly, US airlines such as Delta and American Airlines want greater access to Heathrow and other UK airports but are anxious to stall BA's growth in the US.

If one airline cannot secure such unilateral opening of another country's market, they may well calculate it is better to keep both markets closed than press for an open skies regime. Partially closed skies provide them with some monopoly protection. Such an outcome, though, would not be in the broader national interest of either the US or the UK. Abolishing the current restrictions would lead to more flights between a wider range of airports in both countries. Greater competition would also drive down air fares and the consequent increase in transatlantic travel would boost trade and tourism.

For an open market to be negotiated, the governments will need to gain a wider perspective than that of their airlines. The prize of doing so is great and should be enthusiastically grasped.

## Brazil's inflation

For the first time in years, there is a real chance for Brazil to put an end to its chronically high inflation. Much must still be done to ensure that this occurs, but important groundwork has been laid for a deep and sustainable reduction in an annual inflation rate now accelerating past 2,500 per cent.

After six unsuccessful anti-inflation plans in eight years, why should anyone take the latest seriously? The reason is twofold: the plan makes economic sense and politicians, through a chance combination of circumstances, may be disposed to back it.

First, the politics. Brazil's president and his Congress - both potential obstacles to economic stabilisation - are currently weak. President Collor Franco is content to let his finance minister, Fernando Henrique Cardoso, handle the economy. Legislators have been shaken by corruption scandals and their puppet-masters - the state governors - are scared of the popularity of the left-wing presidential candidate, Luiz Inácio Lula da Silva ahead of October's elections.

The plan is a credible attempt to tackle the underlying cause of inflation - the budget deficit. It also attacks the inflationary psychology and indexation mechanisms which make last month's inflation rate the effective base for next month's inflation.

Erasing Brazil's chronic budget deficit is the harder part. The country's 1988 constitution earmarked such a high percentage of federal government revenues that

it virtually guaranteed deficits.

According to Malton da Nobrega, an economist and former finance minister, about 98 per cent of Brazil's tax revenues are earmarked for specific expenditures - most of it goes straight to the state or for wages for government employees whose jobs are legally protected. This leaves the rest for current and capital expenditures, and paying debt interest.

A constitutional change passed last week will reduce for a two-year period the proportion of funds earmarked and provides, in the best case, a temporary basis for erasing the budget deficit. The big risk is that in an election year, the government will give in to pressures to spend money.

Even if all this works, it is unrealistic to think that Brazil's inflation will be brought down to international levels in one shot. The best that can be hoped for is that the plan buys time to allow the government that takes over next year to complete the task.

To do this, it will need the tools. Congress can provide those during the current constitutional revision process. This might include, for example, devolving more functions to the states, which should allow the centre to be placed on a sounder financial footing. It can also reform the political system - with the aim of reducing the fragmentation of Congress and eliminating gridlock. This is a rare opportunity for a discredited Congress to raise its stock with the Brazilian public. It should grab it with both hands.

Rarely has someone entered democratic politics and achieved such rapid success as Italian media magnate Silvio Berlusconi.

The sheer energy and audacity of his plan to become Italy's next prime minister at the head of his four-month-old Forza Italia movement has wrong-footed his opponents. From mid-January onwards, when he announced he intended to fight the March 27 general election, the other parties have watched dumbfounded the seemingly unstoppable ascendancy of Mr Berlusconi. His own polls give Forza Italia 37 per cent of the vote; other polls show large numbers of undecided voters but still give him the lead over his nearest rivals, the left-led Progressive Alliance, with 25 per cent support or more.

But as the election campaign gathers pace, chunks are appearing in the armour of the 57-year-old owner of the Fininvest media empire. The strict laws governing the use of electoral propaganda deprive him of his principal instrument - exposure on his commercial television channels.

Politically, his alliance with the populist Northern League of Mr Umberto Bossi, essential to launch Forza Italia in the north, is under strain. In the centre and south the National Alliance, the rebranded neo-fascist MSI movement of Mr Gianfranco Fini, is ever more closely linked to Forza Italia and pulling Mr Berlusconi away from his preferred centre-ground to the right.

Mr Berlusconi is running a presidential-style campaign, encouraging the electorate to vote for him as the personification of a new force in Italian politics. But the number of Forza Italia candidates likely to win seats is unclear, and his supporters could choose either of his two main allies, both established parties.

Whatever the outcome, Mr Berlusconi's entry into politics has transformed the election into a genuine contest between the social democrat model of government proposed by the Progressive Alliance and a conservative rightwing preaching the virtues of business.

The advent of the businessman-politician also raises serious questions. Mr Berlusconi is no ordinary businessman. He has created Europe's second-largest media empire after Bertelsmann of Germany in 25 years.

Fininvest is Italy's third-biggest private group with a provisional 1993 turnover of L11,600bn (\$4.7bn). Mr Berlusconi owns three national television channels. These, plus advertising and programme links with regional stations, give Fininvest control over 85 per cent of Italian commercial networks and a 45 per cent share of the national audience. His companies also account for 30 per cent of the domestic publishing market.

In every venture so far he has come out on top - not least in his high-profile 1986 purchase of AC Milan football club, which he has turned into the most successful Italian team of all time.

Can a man who wields such influence in politically sensitive sectors insulate himself from a conflict of interest once in high political office?

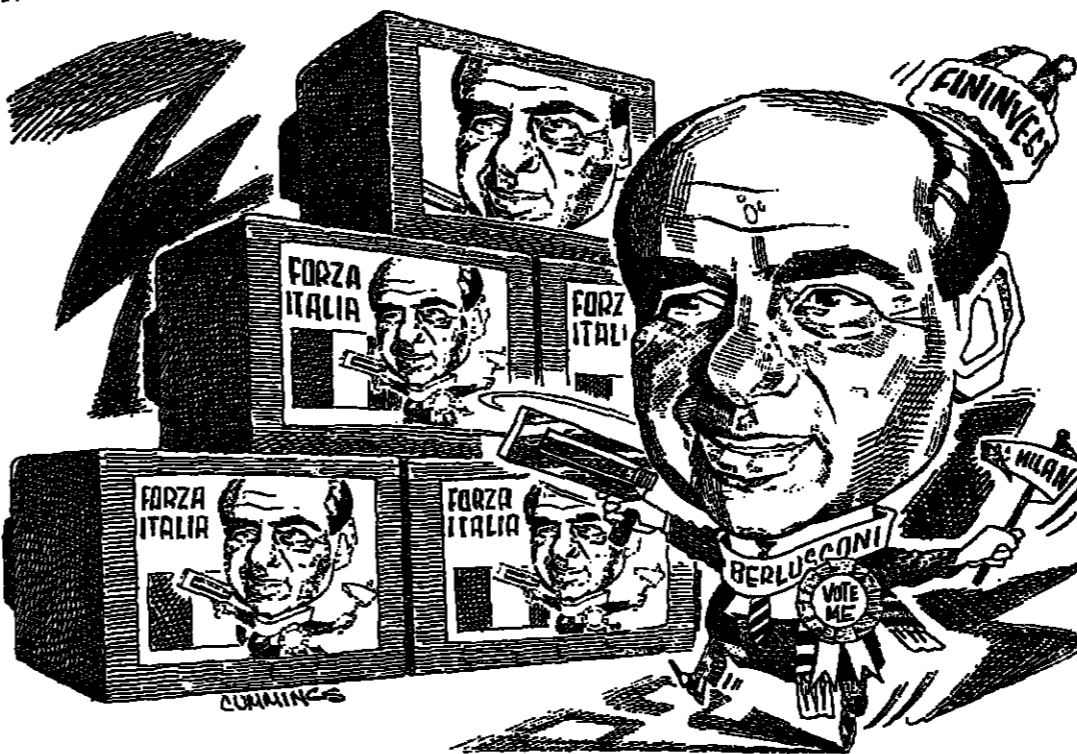
The question is all the more relevant in a country where the divi-

visions of L172bn, and L437bn of funding extended to buy television rights for use in the Spanish market. The 1993 results are likely to be depressed by stagnant advertising revenues, the effects of recession, the cost of debt service and greater tax provisions.

"Fininvest is a typical product of the 1980s boom," observes Mr Franco Taro of Fininvest's Mondadori publishing arm. "It didn't want to become a conglomerate, but became so with a policy of expansion at all costs. The original thread thinking all the activities was advertising. But it has been lost

Robert Graham on potential conflicts of interest for a political mould-breaker

## The mogul is the message



ing line between business and politics has long been blurred for mutual benefit. The incestuous relationship between the two fostered the all-embracing corruption that has so discredited Italy's postwar political system.

Moreover, Mr Berlusconi is himself a product of this system. He made his first fortune in the rough and ready world of the Milan construction business, and was subsequently a member of the powerful secret masonic lodge P2 that symbolised the shadowy parallel system of power in the Italy of the 1970s.

Mr Berlusconi is one of the few top businessmen not to have been directly touched by the corruption scandals. Nevertheless, his brother Paolo, who now runs the family property business, has admitted to paying bribes to local Milan politicians to secure development projects. Four of Mr Berlusconi's senior aides have been caught up in magistrates' investigations into illicit party financing, the Fininvest group, for example, is alleged to have given the main political parties substantial undeclared discounts in the 1992 general elections.

"Having been freed from the corrupting situation where politics controlled business, we now risk falling into the opposite trap of politics being under the thumb of business," commented Professor Luigi Spaventa, the budget minister and the candidate of the left's Progress-

sive Alliance who is fighting Mr Berlusconi in a Rome constituency.

Since his campaign started, the nearest Mr Berlusconi has come to conceding a potential conflict of interest was his move in January to distance himself from management of the Fininvest group. He resigned from all his managerial positions, appointing a chairman, Mr Fidele Confalonieri, his faithful aide and friend since student days. This followed a management shake-up last October when he created the post of chief executive for Mr Franco Taro, a professional manager who had been running the Mondadori publishing subsidiary.

However, Mr Berlusconi retains ownership of Fininvest. According to Fininvest officials, he and his family own 51 per cent of the group via 22 "box" holdings (holding Italian numbers 1-22) and the remainder indirectly through two trust companies, Servizio Italia and Saf, set up by the big state commercial bank, BNL. This structure reflects the traditional Italian concern to limit tax liabilities and to conceal the precise individual stakes held by family members.

Mr Berlusconi has used the Fininvest infrastructure as the core from which to organise Forza Italia. The national network of the movement's "clubs" (modelled on AC Milan supporters clubs) is liberally sprinkled with Fininvest employees. Some 40 executives from the group

are devoting themselves to the campaign. At the same time an undisclosed amount of Fininvest money has been ploughed into propaganda and organisational activities over the past four months.

The state's Media Watchdog Committee, the ombudsman, has few teeth to control this sort of corporate involvement in a political campaign, or indeed corporate ownership by a politician running for office. "There is no precedent for this kind of situation," said a committee spokesman. "The existing law does not envisage any trustee arrangement for the proprietary and beneficial interests of a media owner if and when they take public office. It is sufficient that he relinquishes an executive role."

Mr Berlusconi has a lot riding on his campaign. It is far from clear that he would continue as a professional politician if he lost. This perception has prompted sceptics to conclude that Mr Berlusconi is running for office in part to protect his business interests. Mr Luciano Benetton, head of the Benetton leisure wear group, said as much last week: "Silvio Berlusconi's love of politics is motivated by a fear of losing his television interests."

Mr Taro, Fininvest chief executive, says quite openly: "If Berlusconi loses, and the left wins, we risk losing one television channel immediately and a second within two years." This could mean the loss of

as much as a quarter of Fininvest's total revenue base.

Mr Berlusconi's grip on the media has become a principal focus for his opponents' fire, which he has cleverly countered by claiming that the state-run RAI broadcasting channels are biased against him.

He cannot disguise the fact, however, that no other European government has allowed one individual to accumulate such television power. The Italian press irreverently refers to Mr Berlusconi as "Su' Emittenza" (a pun on the address for a cardinal which literally means "his transmitter-ship").

His exceptional dominance of commercial television reflects the highly politicised world of the Italian media. As a result of complex horse-trading among the political parties the haphazardly devolved structure of national television networks was formalised in the 1980 "Mami law". The law confirmed the presence of three state-run RAI channels and six national commercial channels, of which three were for Fininvest, confirming its dominant market position. The only other network of note was Telemon-tearito, in the hands of the Ferruzzi group.

Mr Berlusconi got away with his near monopoly because the Christian Democrats and Socialists controlling parliament were obsessed with retaining their manipulative hold of the RAI and its news programmes. At the same time both parties, and especially the Socialists through their leader, Mr Bettino Craxi, were repaying Mr Berlusconi for his political support. Mr Craxi's Socialist connections also helped pave the way for Mr Berlusconi to take a stake in Spain's Telecinco and in France's first commercial television station.

Efforts to reform the law have consistently been blocked because the main parties refused to surrender control of RAI. "Everyone recognises the Mami law reflected the position of the political parties at a particular time and this situation of a spokesman no longer applies," said a spokesman for the Media Watchdog Committee.

Mr Berlusconi has already experienced pressure over his media ownership. Under a 1992 law limiting cross-holdings of newspapers and television interests media, he was obliged to offload a majority stake in his newspaper, Il Giornale, to his younger brother Paolo. This did not stop him this January ejecting the editor in a very public row, in a clear defiance of the spirit of the 1992 law.

Now, with the RAI in desperate financial straits and the links with the old political parties severed, a rearrangement of television licences has become an important item on the agenda of the next government. The Progressive Alliance, dominated by the former communist Party of the Democratic Left (PDS), has said it will limit ownership of television channels to one per group. Even Mr Bossi, Mr Berlusconi's electoral ally, has suggested a curtailment of his television power.

Thus, even if Mr Berlusconi comes on the winning side, the question of Fininvest's television power cannot be ignored. If he loses, more than just his political ambitions will be under threat.

## Delicate digestive system

and all this expansion now has to be digested."

The group has spread itself into four areas: stores (Standa and Euromercato); publishing (Mondadori and Silvio Berlusconi Editore); television and cinema, known under the heading Big tv; and financial products. Almost without exception Fininvest has a good asset portfolio. However, many assets were bought at very high prices with expensive debt in an expanding economy. Real interest rates remain high and Italy has been in a recession for 18 months.

Mr Taro considers all of these to

be mature business areas with clear limits on growth imposed by anti-trust laws on expansion in publishing and the threat to TV licences.

The group is carrying L3,800bn of debt, high by Italian standards, reflecting the purchase of Standa and Mondadori in the 1988-91 period. Fininvest's debt has leapt 12-fold since 1988 from L293bn. Concern over the size of Fininvest debt among the group's creditor banks was one reason for Mr Taro's appointment last October. Some L600bn should be raised by the flotation of Mondadori-SBE

later this year. But even if it proceeds as planned, it may not be enough to tide Fininvest over the recession. Although Standa provides almost half Fininvest's cash-flow, it carries much of the debt and is the most marginal to the media/multimedia interests.

Apart from considering asset sales, Mr Taro is restructuring the debt out of the Fininvest holding and into the operating companies. He also believes the ownership structure will have to be reworked. This has been tax efficient, but is increasingly clumsy to manage. Also, in the light of the Ferruzzi group's collapse last year, the demand by the financial community for greater transparency in family holdings has increased.

## OBSERVER



"I've come to give you my full support"

picked up the PM's comments that Britain's GDP growth was currently 2.5 per cent, with a 2.5 per cent forecast for "next year". In fact, the government is predicting 2.5 per cent growth for this year and the Treasury confirmed that there was no change in its forecast.

So did the Prime Minister get the figures wrong, or is he simply confused about which year it is?

### Pips squeak

Who says the trade unions have lost their muscle? Barclays Bank's top brass must be quaking at the knees at the threatened response

by the Banking, Insurance and Finance Union to the bank's plans for compulsory redundancies in London and the east.

Having failed to win support for a strike, the union is rolling out its secret weapon, an "Admotive". It's a lorry with a sign on the back telling Barclays, in no uncertain terms, that it must stop its sacking plans at once.

It will circle Parliament Square several times next Thursday before making a ceremonial drive past Barclays' new head offices. Managers had better duck down or it might sound its horn.

### Return trip

So BOC has finally found a new chairman, or rather an old one. The news that Richard Giordano, who headed the group for more than a decade, is re-occupying the BOC chairman's suite may be good for BOC's shareholders, but some British Gas shareholders might feel a bit miffed.

When British Gas recruited its new £450,000 a year chairman, Giordano undertook to reduce his other non-executive commitments. Now Giordano is adding the non-executive chairmanship of another company which is going through a bit of a rough patch, but promises that "his principal activities and office" will remain at British Gas. Presumably, this means that he won't be paid the £305,000 a year he commanded the

last time he was BOC's chairman.

If Giordano was the natural successor to Pat Rich, who announced his surprise early retirement over six weeks ago, why didn't BOC nominate him at the time?

### Punt a quid

One of the more innocent cross-border activities between Ulster and Eire, the monthly exodus by northerners in search of the nearest southern newsagent to buy lottery tickets, is looking sickly.

The republic's national lottery organisers handed out 139m punts in prize money last year and northern punters alone bought 27m punts of lottery tickets, about 10 per cent of the total. The Eire lottery boys are worried about a big drop in takings, once the UK lottery starts up next year.

But a half-empty bottle is also half full: Lotto fans north of the border are looking forward to two chances of striking lucky.

Porridge oats, no doubt.

Room service

There are Grand Hotels and then there is the up-and-coming Sheraton Grand Hotel in Edinburgh. A reader has just had his reservation confirmed - for a double room - at £104 per room per night inclusive of VAT and full Scottish breakfast.

## Polymorphous polytechnic

Everything in yesterday's edition of the FT's sister publication - Les Echos, the French financial daily - seemed normal, but for the prominence of the bylines.

What was Jean Peyrelevade, the head of Credit Lyonnais, doing writing about the French economy? Or Jean-Louis Beffa, the head of the St-Gobain glass company, writing about German wage rows? Or Serge Dassault, the jet-maker, writing about devaluation of the French African franc?

The answer is that they are all graduates of the Ecole Polytechnique. To help celebrate that elite institution's 200th anniversary, Les Echos invited 60 of them to write their master-of-all-trades training into practice by producing the entire issue.

Ex-president Valéry Giscard d'Estaing was not required actually to turn up at the office to pen his editorial on "full employment". But 54 other polytechnicians were called in to work at Les Echos' Paris headquarters. "We selected the subjects for them, but they chose the angle of the articles," said a real Les Echos journalist.

Five of those absent abroad on business were converted into special correspondents, with Jean Gandois, the boss of Pechiney, filling a story from Chicago on the new US threat of "Super

301" trade retaliation. And what about taking the role reversal the other direction, letting the French businessmen's response be not overwhelming...

### Le Hezza

Speculation about Michael Heseltine's intentions are threatening to get out of hand; his every move is now being interpreted as a bid for John Major's job.

What will his rivals make of his latest bid for the headlines - an exclusive and exhaustive interview in the French financial newspaper La Tribune? The gushing article, spread across the centre pages, concludes that Heseltine's political renaissance has been nothing short of miraculous.

With the odds on Hesza taking over from Major shortening to three to one, Hesza has told friends that he does, indeed, have his heart set on higher office. But it is François Mitterrand's job he is after.

### Grow slow

Whereas John Major's predecessor used BBC Radio's Jimmy Young show to boost her loyal following among Britain's housewives, the main impact of Mr Major's appearance yesterday was to confuse the financial markets. An alert Reuters hack

## Hurd urges EU to drop 'grand' plans for institutional change

By Philip Stephens, Political Editor, in London

Mr Douglas Hurd yesterday called on Britain's European partners to drop grand ambitions for further institutional change in the European Union and commit themselves to making the present administration work.

In a speech directed as much at the warring factions in his own political party as at EU members, Britain's foreign secretary said the 12 should seek a new British initiative to the integrity and effectiveness of administration in Europe. The EU should do less but do it better.

Calling for less European legislation, value for money, a fight against fraud and the even application of EU law, Mr Hurd said governments "have for too long

concentrated on designing future stages of European co-operation". He told the Belgian Institute of International Affairs in Brussels: "The people of Europe have the right to expect those charged with the administration of Europe to concentrate not just on the historical importance of the European endeavour but on the nitty-gritty which will decide whether it works".

Mr Hurd called for other EU justice and home affairs ministers to back a new British initiative designed to combat criminal fraud against the Union's institutions. He said: "The true European vision in 1994 lies in making a success of what we have already agreed and extending that success to other parts of Europe."

Mr Hurd's aides said that the

speech was not intended to provide a complete picture of the government's approach to the next stage of European development.

But the emphasis on pragmatism and the distinct scepticism about European "vision" were interpreted at Westminster as part of a series of concerted moves to unite the Conservative party around a common stance for the European election.

It was reinforced by prime minister John Major, who insisted yesterday that the Conservatives would fight the June poll on a platform opposing greater centralisation of powers in Brussels.

Distancing Conservative MEPs from their alliance with members of the pro-federalist European Peoples party, Mr Major added: "We will fight the election on a

distinctly British Conservative manifesto for the future of Europe."

There were signs last night that the attempts to assuage Conservative Eurosceptics had annoyed leading members of the party's pro-European wing.

On BBC radio, however, Mr Major dismissed suggestions that damaging defeats expected for the Conservatives in the local and European elections could force him from office.

Instead he emphasised his determination to remain in Downing Street. Recalling that in 1992 the Conservatives had secured the largest vote of any party in history, he said: "I was elected to remain prime minister of this country at least until the next (general) election and beyond it if I win it."

## German court backs nuclear waste site

By Quentin Peel in Bonn

A local court in the German state of Lower Saxony yesterday gave the green light for further exploratory work on Germany's first full-scale nuclear waste disposal site in the dissolved salt mines at Gorleben, on the banks of the river Elbe.

The decision is a victory for the federal government in Bonn, and the nuclear industry, in the battle with environmentalists and local state authorities to establish proper nuclear waste disposal facilities at Gorleben.

If the Gorleben site goes ahead, it is scheduled to provide facilities for long-term disposal of high-level nuclear waste and interim storage. That could mean Germany will no longer need to

send highly radioactive nuclear waste for reprocessing in Britain and France.

The waste disposal plans for Gorleben have been resisted by the state governments of Lower Saxony for almost 20 years, by the conservative Christian Democratic Union and the leftwing Social Democratic party (SPD).

The decision on Gorleben may have an impact on state elections in Lower Saxony next Sunday. The SPD, represented by environment minister Ms Monika Griffling, and its Green party partners in government, have insisted Germany abandon nuclear energy for power generation.

The court order means the state mining authorities must allow further exploratory work

on the salt mine workings, and the state government must extend planning permission for the Gorleben complex as a whole.

The court overruled objections to the plans by the local landowners. Yesterday's victory in Lüneburg was tarnished by a setback for the nuclear industry in another battle, in the neighbouring state of Hesse. A fire in the 30-year old nuclear power station at Biblis, near Darmstadt, meant the station could not be restarted as planned yesterday after routine maintenance.

The fire has given Mr Joschka Fischer, Green party environment minister in Hesse, ammunition against Mr Klaus Töpfer, the CDU environment minister in Bonn, over the plant. Last week Mr Töpfer used his federal powers

to order Mr Fischer to let it go ahead.

Mr Fischer's campaign against nuclear power generation has prevented the operation of the Siemens MOX plant at Hanau, where reprocessed plutonium from Britain and France is supposed to be turned into mixed-oxide fuel elements for reuse in Germany's nuclear power stations. By delaying that process, he has called the whole nuclear cycle into question. There is pressure on the government and industry to allow direct disposal of nuclear waste - at a site like Gorleben - instead of reprocessing.

In Lower Saxony the present government says it will not allow direct disposal unless high-level radioactive waste is limited.

## White House takes political offensive over Whitewater

By Jurek Martin in Washington

The White House yesterday began a fully fledged assault on the Republican party, charging that it was exploiting the Whitewater affair to cover up its own political shortcomings.

Mr George Stephanopoulos, the senior presidential adviser, said on breakfast television of the Republicans: "They can't run on the economy, they can't run on healthcare, they can't run on welfare, they can't run on crime, so they're trying to exploit this issue."

However, picking up arguments used by vice-president Al Gore on Sunday, Mr Stephanopoulos conceded that the White House damage control team "created a lot more damage than it controlled". The leading member of that team, Mr Bernard Nussbaum, the White House legal counsel, announced his resignation at the weekend.

But Mr Stephanopoulos added

that the president had ordered full co-operation with the independent Whitewater counsel, Mr Robert Fiske, and had created "fire walls" to prevent even the appearance of improper consultation between the White House and departments of government.

"We're going to get back to work on the big issues, and let the special counsel do his work," he said. This message was also conveyed on television by Mr Mack McLarty, the White House chief of staff, and Mr Paul Begala, another presidential adviser.

Yesterday, one prominent Republican, Congressman Jim Leach of Iowa, also warned his colleagues about loose talk of forcing President Bill Clinton from office, implicit in a weekend interview by Senator Phil Gramm of Texas. Mr Leach said: "I think it would be very inappropriate to put forth the notion that the presidency is in jeopardy."

Mr McLarty said he did not

think either the president or Mrs Hillary Rodham Clinton knew of the controversial meetings between White House and Treasury officials at which the investigations into the failed Madison savings and loan institution, at the heart of the Whitewater affair, were reportedly discussed.

Mr Stephanopoulos insisted these briefings were perfectly routine. Mr Roger Altman, the deputy Treasury secretary, had previously held similar sessions with congressional staff and the media, he said. These sessions were first disclosed by Senator Al D'Amato, the New York Republican, members of whose staff attended Mr Altman's meetings, Mr Stephanopoulos said.

Mr Joel Klein, Mr Nussbaum's deputy, has ordered White House officials to destroy nothing related to Whitewater until it has been determined what is relevant to Mr Fiske's inquiries.

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## Central banks reject curb on hedge funds

Continued from Page 1

supply in January - growth at an annualised rate of 20.6 per cent - would not affect the Bundesbank's long-term monetary targets. The M3 figure led to a sharp fall in bond prices when it was disclosed last Wednesday.

He said there was "no reason" for markets to remain concerned. "The M3 figures are to some extent due to special factors, and of course we hope their influence will disappear over time, and our monetary policy is targeted to a whole year," he said.

Bond traders will focus today on the Bundesbank's announcement of its latest round of securities repurchase agreements. Most traders expect another round of variable-rate repos.

On the bourses yesterday, Frankfurt rose 2.4 per cent and continued higher after hours, while Paris advanced 1.9 per cent and Amsterdam put on 3.5 per cent. London rose 27.9 to close at 3,305.9.

### THE LEX COLUMN

## BA's special relationship

Anyone believing that British Airways would act as USAir's sugar daddy now knows that it will be sparing with the financial lollipops. But given that BA did not plan to invest any more money until 1996, that reassurance is somewhat superfluous at this stage. It rather suggests BA is playing to three broader galleries. BA's reticence will help USAir talk tough to the trades unions in its efforts to cut costs. It will also help calm shareholders' fears that it will throw good money after bad. BA comments may also be an attempt to take some sting out of the current controversy surrounding future UK-US aviation arrangements.

USAir is certainly in a sorry state having lost \$1.1bn over the past three years. The winter weather has caused severe disruption. But more worrying is the impact that low-cost rivals are having on USAir's main routes. It will take time and drastic action to address that threat.

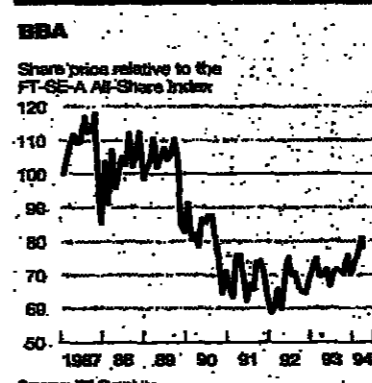
BA is relatively protected from USAir's losses given it receives a fixed 7 per cent coupon on its \$400m of preference shares. That, though, will provide little comfort if USAir is forced to seek protection from its creditors. But BA's exposure to USAir is not just financial. The alliance forms a central strut in its global strategy and its collapse would badly tarnish its expansion plans. That makes it all the more unenviable that BA appears to have little control over its destiny in the US.

### BBA

Over a 10-year spell, shareholders have little reason to think kindly of their investment in BBA. Equity shareholders' funds are barely equal to the amount that they have subscribed in rights issues. Total returns - including dividends - are somewhat shy of what might have been earned in the building society. A year ago the company raised £120m on the basis of a maintained dividend, yet investors now find that the promise is valid for a single payment. After a decade of frenetic dealing and fund raising, only merchant banks and lawyers have reason to rub their hands at the mention of BBA's name.

With a new chief executive, Mr Bob Quarta, investors must decide whether the future will be different from the past. The company gamely argues that its new-found real for cost cutting will produce margins in excess of 10 per cent. And while the reduced dividend leaves a sour taste in the mouth, it is

FT-SE Index: 3305.9 (+27.9)



Source: FT Graphix

probably the right pragmatic decision. It is certainly a marked contrast to Lucas, which continues to fund its excessive payout in increasingly convoluted ways.

Rationalisation and slow recovery in the continental European car market will improve returns. Some of the industrial operations are already up to the mark. Aviation, however, faces a longer struggle to justify its place in the portfolio. Investors will have to decide whether they trust Mr Quarta to knit a coherent whole from disparate parts. He has a good reputation, but it is not an enviable position from which to start.

### UK economy

Yesterday's disappointing consumer credit figures are meat for the bears of the UK economy. Taken with lower mortgage lending by banks and building societies in January, the statistics point to consumer confidence falling in the early weeks of the year. Related appreciation of the extent of April's tax rises may be to blame, or simply renewed caution following unusually high borrowing in December.

Either way, the figures are at odds with the strong retail sales recorded in January. It may be that seasonal adjustment over the Christmas and New Year periods made the sales data less reliable than usual. The December sales figure was, after all, perplexingly weak.

Other evidence - such as yesterday's report from the Finance and Leasing Association - suggests that demand for big-ticket items such as cars is holding up well enough. Febru-

ary's retail sales figures, expected next week, may help clear up the confusion.

On that basis the lowest level of consumer lending since August should not cause too much alarm just yet. The three-month rolling average remains healthy enough, in what can be a highly erratic series. Still, any further fall in the savings ratio - which will be necessary to sustain consumer spending when tax increases start to bite in earnest - should show up clearly in future consumer credit figures. If low borrowing in February establishes a downward trend, there will be reason to worry.

### British Vita

Two years on from its last rights issue British Vita still has a large portion of the proceeds in its back pocket. Even through the depths of recession, cash flow has been strong enough to finance capital spending well ahead of depreciation and a string of small deals. Given the dwindling returns on cash - and the fact that the shares have underperformed the equity market by 20 per cent since the rights issue - shareholders might feel disappointed on both counts.

With 60 per cent of turnover in continental Europe, the outlook for sales growth should be brighter from here on. The snag is that Vita finds itself sandwiched between chemicals suppliers looking to increase prices and customers in the automotive industry and elsewhere trying to cut costs. Margins may suffer further if the giants of the chemicals industry make annual price rises stick in April. With its shares on a price earnings multiple well above the market average, a well-judged acquisition would not go amiss.

### Reuters

Yesterday's 4 per cent rise in Reuters' shares to a new all-time high illustrates how the media company remains hot news. Since reporting its annual results last month, Reuters has risen 10 per cent while the FT-SE All-Share index has slid by 5 per cent. Some of the buying stems from technical factors. With about half the shares being held overseas, UK fund managers have been scrambling to re-weight their portfolios. That demand has squeezed the price higher in this volume. The risk is that the surge may tempt US investors to take profits, turning the UK's current drought of Reuters' shares into a deluge.

**FT WEATHER GUIDE**

**Europe today**

A complex low pressure area will draw mild and moist air from the Atlantic over the southern parts of Britain, the Benelux, Denmark and southern Scandinavia, producing cloud and, especially in England and south-west Norway, periods of rain and strong to near gale force south-westerly winds. Scotland and Ireland will have sunny spells mixed with showers. High pressure will keep France, Italy and the Alps dry with sunny periods. Spain and Portugal will have abundant sunshine and temperatures in the 20s. Greece and Turkey will also be sunny but afternoon temperatures will be cooler than in south-west Europe. Lapland and Finland will stay wintry with light snow and temperatures below freezing.

**Five-day forecast**

Greece, Turkey and Cyprus will be unsettled as low pressure develops. However, high pressure will keep southern and south-west Europe sunny and dry. A westerly air current will give changeable conditions over northern Britain and Scandinavia. Wintry showers will occur in northern Europe. The mainland of western and eastern Europe will have scattered showers.

**TODAY'S TEMPERATURES**

Location	Temp	Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	30	Cardiff	11	Frankfurt	13	Malta	17
Accra	32	Chicago	18	Geneva	10	Manchester	14
Algiers	20	Cologne	18	Glasgow	11	Madrid	11
Amsterdam	12	Dakar	23	Hamburg	11	Mexico City	24
Athens	18	Dallas	33	Helsinki	11	Moscow	0
Bahia	28	Delhi	14	Hong Kong	24	Munich	11
Bangkok	34	Dubai	14	London	11	Nairobi	29
Batavia	17	Edinburgh	11	Osaka	19	San Francisco	15
Bombay	30	Faro	20	Paris	13	Seattle	10
Buenos Aires	17	Geneva	10	Perth	13	Shanghai	10
Calcutta	30	London	11	Rangoon	17	Singapore	27
Cairo	25	Los Angeles	21	Reykjavik	1	Stockholm	16
Cape Town	17	Madrid	11	Rio	28	Taipei	18
Casablanca	17	Manila	27	Tel Aviv	18	Tokyo	13
Cebu	30	Medan	27	Tientsin	2	Ulaanbaatar	1
Dhaka	30	Montevideo	14	Vancouver	10	Yokohama	14
Dublin	11	New York	14	Vladivostok	14	Zurich	14
Hankow	19	Osaka	19	Warsaw	9		
Hong Kong	24	Perth	13	Wellington	16		
Kobe	19	Prague	14	Winnipeg	17		
Kuala Lumpur	30	Stockholm	16				
London	11	Taipei	18				
Los Angeles	21	Tokyo	13				
Madrid	11	Tientsin	2				
Manila	27	Ulaanbaatar	1				
Medan	27	Vancouver	10				
Montevideo	14	Vladivostok	14				
New York	14	Warsaw	9				
Osaka	19	Wellington	16				
Paris	13	Winnipeg	17				
Perth	13						
Prague	14						
Stockholm	16						
Taipei	18						
Tokyo	13						
Tientsin	2						
Ulaanbaatar	1						
Vancouver	10						
Vladivostok	14						
Warsaw	9						
Wellington	16						
Winnipeg	17						
Zurich	14						

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

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<b>ITALY</b> L. BUFFETTI SPA In excess of Lit 200,000,000,000 MANAGEMENT BUYOUT Lit 30,000,000,000 MEZZANINE CAPITAL ARRANGER & UNDERWRITER INTERMEDIATE CAPITAL GROUP LIMITED	<b>U.K.</b> MULTIPART DISTRIBUTION LTD. £54,000,000 MANAGEMENT BUY IN £3,750,000 SENIOR PREFERENCE SHARES ARRANGER & PROVIDER INTERMEDIATE CAPITAL GROUP LIMITED

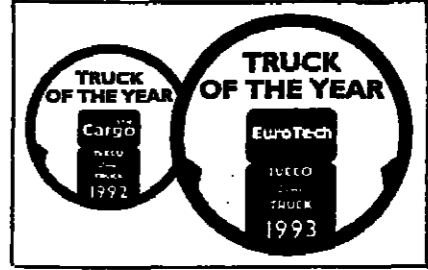
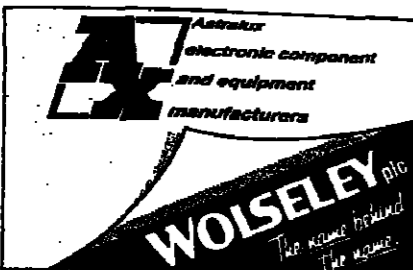
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**IN BRIEF**

**Setback for Wallenberg group**

Investor, the main holding company of Sweden's powerful Wallenberg family, reported a sharp fall in 1993 as reverses at Saab-Scania, the vehicle and aerospace group, and a fall in capital gains left profits after financial items at SEK410m (\$52m), down from SEK1.48bn. Page 20

**Small concepts**  
The Geneva Motor Show will see a number of new concept cars unveiled. The joint venture between the Mercedes-Benz German luxury car-maker and SMH, the Swiss pioneer of cheap and cheerful watches, to develop a micro compact car is the most dramatic sign yet of the determination of carmakers to develop a new market for minicars intended solely for use in congested, densely populated cities. Page 20

**Relief for bonds**  
After giving up as much as six months' worth of gains in the past four weeks, European bond prices are staging a modest recovery. Page 21

**Blueprint for Hong Kong SE**  
The Hong Kong stock exchange unveiled its blueprint for the next three years and beyond, with proposals including greater self-regulation among market players and tougher disclosure requirements in line with its bid for increasing internationalisation. Page 22

**IMI held back by computer losses**  
IMI, the international engineering group, saw pre-tax profits plunge to \$70.2m (\$102.5m) in 1993, but its advance was held back by losses in its computer business and by the restructuring of its fluid power division. Page 24

**Recession takes toll on British Vita**  
British Vita, the foam and fibre group, saw profits plunge from a restated \$52.3m in 1992 to \$33.6m (\$49m) last year as the recession in continental Europe took its toll. Page 25

**Debt collector falls 13%**  
Intrum Justitia, Europe's largest debt collection company, suffered a 13 per cent fall in profits to £13.5m (\$20.3m). Page 26

**Down and out on the farm**



Speakers last week in Budapest at the Agra Europe conference on agriculture, agribusiness and the food industry in central and eastern Europe, gave a graphic account of the plunge in production and farm employment that has followed the collapse of communism and the old Comecon trading system. Page 30

**Malaysia and Singapore take a tumble**  
Malaysian equities fell 6.1 per cent after a 5.2 per cent gain in the week before, while the Singapore market took a 4.5 per cent tumble. This left the 14.1, and 1.1 per cent lower on the year so far. Back Page

BA's global strategy is being tested by US carrier's ability to cut costs, write Paul Betts and Richard Tomkins  
**USAir expects its deficit to deepen**

USAir, the beleaguered US carrier in which British Airways holds a 24.6 per cent stake, yesterday shocked the airline industry by announcing that competition from low-cost carriers would drive it even more heavily into losses this year.

Analysts had been looking for a recovery in the airline's performance after five years of losses. But USAir said pre-tax losses in the first quarter alone were likely to rise from \$51m to \$80m, while for the year as a whole the deficit was expected to be even worse than last year's \$348m.

USAir confirmed that BA would not invest any more money in the airline until it was clear that an effective cost-reduction programme was in place and the company's financial performance improved.

It also said it was planning to meet union leaders late yesterday, raising expectations that it is poised to confront employees with plans for a restructuring involving reductions in

jobs, wages and conditions of employment.

USAir shares tumbled 11% to 58¢ in early trading, their lowest since October 1991.

Mr Seth Schofield, the airline's chairman, president and chief executive, said one reason for the first-quarter loss was that unusually severe winter weather in the north-east - USAir's main market - had forced it to cancel about 8 per cent of its flights in January and February.

But the main reason for the company's grim financial outlook, Mr Schofield said, was USAir's need to cut fares in response to the steady expansion of low-cost carriers in many of its east coast markets.

Last month USAir announced that it was cutting business fares indefinitely by up to 50 per cent on routes between 96 cities in the eastern US. The move was in response to competition from Southwest Airlines and Continental Airlines, two low-cost carriers which have made inroads into its markets.

Other large US carriers have responded to low-cost competition by cutting jobs and increasing productivity. But USAir has so far made little progress in cutting costs, so lower fares will translate into bigger losses.

BA has invested nearly \$400m in USAir and was due to invest another \$450m between now and 1996. But yesterday it said it would not commit any more funds "until the outcome of the restructuring is known."

Lex. Page 18

**Gates says most multimedia trials are dead ends**

By Alan Cane in London

Mr Bill Gates, founder and chairman of Microsoft, the world's largest personal computer software company, yesterday poured cold water on the value of most of the "multimedia" trials in the US and Europe.

Describing the current flush of interest in multimedia as a form of collective mania, he predicted that trials based on home entertainment would prove to be dead ends and would be counter-productive to the establishment of a viable multimedia industry.

"Multimedia and 'information superhighway' are descriptions of developments expected to lead to the delivery of a range of interactive services and information to the office and the home through a single channel - a telephone line, for example, or a compact disc connected to a personal computer."

Multimedia has generated considerable attention over the past six months as companies in the entertainment, communications and computer sectors have formed expensive alliances to exploit the possibilities.

Mr Gates, believed to be the richest man in the US and with a record as a technology forecaster, said many of the companies experimenting with multimedia were misguided. They were concentrating on single services, such as "video-on-demand", rather than a broad range of services, and they were focusing on the home rather than business. "Video-on-demand" implies that customers will be able to select

**Risks give rich uncle pause for thought**

As USAir has become the Achilles' heel of British Airways, the success or failure of the latest restructuring plan proposed by the sixth largest US carrier.

Sir Colin Marshall, BA's chairman and architect of the UK airline's globalisation strategy, yesterday insisted that BA would not withdraw from the initial \$400m investment it made last year to acquire and maintain a 24.6 per cent stake in USAir. But in the same breath he conceded that he was not prepared to invest any additional money in the US partner until it had secured approval for its recovery strategy. "It is not right for us to commit our shareholders' funds until the outcome of the discussions between USAir, its unions and employees become clear."

Of all the investments in other airlines made by BA during the last 18 months - at a cost of around \$280m - the equity stake in USAir has been by far the most ambitious. The rationale was to give BA access to the world's largest aviation market.

The partnership, fiercely opposed by big US carriers such as American Airlines and Delta, has given BA the opportunity to pick up and deliver passengers in the heart of the US market through a ticket code-sharing agreement with USAir. BA also anticipates eventual cost benefits through joint purchasing, engineering, marketing and management information.

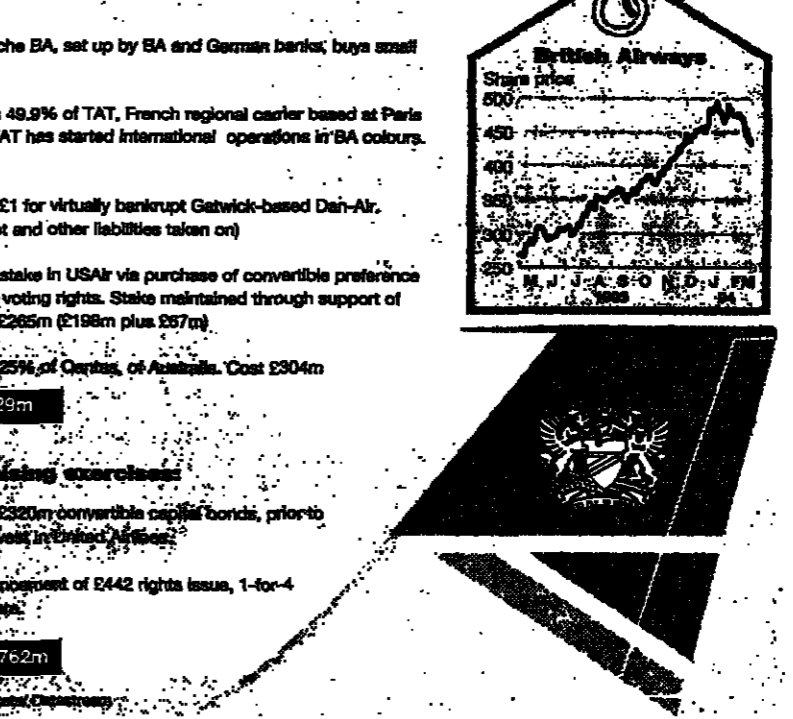
But the partnership has always been seen by City of London analysts as a calculated gamble, hinging on USAir's ability to put together a recovery strategy while BA helps to keep it afloat. BA is partly insulated from USAir's losses because its 24.6 per cent stake consists of preference shares yielding 7 per cent.

However, Mr Chris Avery, aviation analyst at Farbus Capital Markets, says BA's investment in USAir "is possibly the greatest area of risk for investors in BA over the next few years."

Other analysts warn that there is still a risk that USAir will be forced to seek protection from creditors, under the US Chapter 11 bankruptcy rules, unless it can secure the backing of unions and employees for sweeping restructuring. Should this happen, BA could find itself in the same boat as other European carriers, such as KLM Royal Dutch Airlines and Scandinavian Airlines System which have been forced to make heavy write-offs on their investments in financially troubled US airlines.

To complicate matters, BA's investment in USAir has also become embroiled in a long running transatlantic aviation dispute which threatens to reach a climax in the next few days. American Airlines and Delta have pressed the US government to revoke the existing bilateral

**British Airways: Global expansion gathers pace**



Two big fund-raising exercises

- March 1992: Deutsche BA, set up by BA and German banks, buys small German airline.
  - Sept 92: BA buys 49.9% of TAT, French regional carrier based at Paris Orly, from where TAT has started international operations in BA colours. Cost: £15m
  - Nov 92: BA pays £1 for virtually bankrupt Gatwick-based Dan-Air. Cost: £45m (in debt and other liabilities taken on)
  - April 93: BA gains stake in USAir via purchase of convertible preference shares with 24.6% voting rights. Stake maintained through support of rights issue. Cost: £280m (£198m plus 257m)
  - May 93: BA buys 25% of Qantas, of Australia. Cost: £204m
- Total cost: £629m**
- Sept 93: Issue of £200m convertible capital bonds, priority shares and 10% loan in British Airways
  - May 1993: Announcement of £442 rights issue, 1-for-4 issue at 250p a share
- Total raised: £762m**
- Source: Financial Times, London

**ANA warns of loss and lower dividend**

By Michio Nakamoto and Paul Abrahams in Tokyo

All Nippon Airways (ANA) yesterday said it would post a loss for the year ending this month - its first loss for 22 years - and cut its dividend.

The Japanese carrier, hit by continuing weak demand, expected a pre-tax loss of ¥3bn (\$28m) this year, compared with a previously forecast pre-tax profit of ¥6bn.

The operating profit estimate has been revised down to ¥760m from an earlier ¥780m. The dividend is to be reduced to ¥3 from the ¥4 paid for 1992-93 when pre-tax profits totalled ¥13.3bn.

The airline said that both international and domestic operations were down nearly 3 per cent, but it had been hurt most by the continuing slump in the domestic market.

Deregulation had enabled rival JAL to eat into the domestic market, ANA's stronghold, while the airline faced growing competition from other forms of transport, such as rapid rail.

Competition on international routes, where ANA has been building its presence since 1986, was fierce as the popularity of discount air fares grew.

Japanese airlines have been struggling to maintain profitability after a slowdown in air travel and increased competition from lower-cost foreign carriers on international routes.

In particular, the high cost of airport development has been a huge burden on Japanese airlines, which also face some of the highest personnel costs in the world.

ANA is also paying a high price for its ambitious expansion in the late 1980s.

Japanese employment practice makes it difficult to cut costs significantly by making large-scale redundancies. Instead, ANA is pruning unprofitable routes and reducing maintenance costs.

Capital investment in hotels and airport facilities is also being cut. Last year the company was forced to sell aircraft to raise cash and may have to repeat that exercise this year.

**Grolsch shifts German strategy**

By Ronald van de Krol in Amsterdam

Grolsch, the Dutch brewer with important UK links, signalled a shift in its policy towards Europe's biggest beer market by unveiling plans to sell Wickler, its German brewery, only three years after acquiring the company.

Wickler is to be sold for an undisclosed price to one of the country's largest brewers, Brau and Brunnen, in exchange for the Germany company's commitment to handle the distribution of Grolsch lager in Germany.

Grolsch said the partnership with Brau und Brunnen would boost its beer distribution in Germany more quickly than by following its original aim of using Wickler to gain gradual access for the Grolsch brand. It now expects more than 6,000 cafes in Germany to stock Grolsch within the next few years.

Two weeks ago Grolsch announced an agreement with Bass, the UK's largest brewer, to set up a joint venture to market and distribute Grolsch lager in Britain and Ireland.

Grolsch's 1991 acquisition of Wickler was hailed then as a bold but rare attempt by a foreign brewer to capture part of Germany's fragmented beer market. Grolsch restructured Wickler and reduced its range of 20 local beers to three main regional beers. It also halved the

workforce to 400 and closed the Wuppertal operation in favour of the main brewery in Cologne.

However, the company said yesterday that the trend towards concentration in German brewing had placed it in a dilemma - either to match the pace of acquisitions by bigger German brewers or to find a German partner for distribution. "We think we can grow quicker this way," Brau und Brunnen's distribution channels cover the whole country with the exception of the southern tip of Bavaria.

Grolsch, which owns Raddles Brewery in the UK, declined to give the sale price for Wickler or comment on earlier reports that it paid around £110m (\$52m) for it in 1991.

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Chief price changes yesterday

FRANKFURT (DEM)		PARIS (FFr)	
Alcoa	1080 + 50	Aztec	780 + 20
Bayer	267 + 7.5	Alc Uptake	880 + 30
Deutsche Bank	80.5 + 16.5	Deutsche Bank	81 + 34
Hoechst	33.5 + 8.5	Deutsche Cb	407.2 + 21.2
Merck	470 + 19	Escher Int	775 + 36
Pfizer		Volvocont	270 + 17.5
NEW YORK (\$)		TOKYO (Yen)	
Alcoa	27 + 2 1/4	Alcoa	478 + 24
Boeing	75 1/4 + 3/4	Cashington	1210 + 40
IBM	194 + 2 1/4	Deutsche	1280 + 70
Intel	37 1/2 + 3/4	Fujitsu	
Microsoft	32 1/2 + 1/4	Hitachi	1200 + 10
Oracle	14 1/2 + 1/4	Intel	
Qatar	27 1/2 + 1/4	Qatar	622 + 22
Shell	32 1/2 + 1/4	Log Tech Bank	627
Siemens	78 + 1 1/4	Ork Corp	3300 + 140

See York prices at 12.30pm.

LONDON (Pounds)		MAN	
Alcoa	424 + 2 1/2	MAN	273 + 8
Boeing	125 1/2 + 3/4	MAN Leisure	51 + 10
IBM	30 1/2 + 1/4	Radson	2150 + 81
Intel	45 + 3/4	Rolls-Royce	1160 + 8
Microsoft	32 1/2 + 1/4	Standard Chd	180 + 4
Oracle	14 1/2 + 1/4	Tatoyouza	145 + 2
Qatar	27 1/2 + 1/4	Pfizer	
Shell	32 1/2 + 1/4	Pfizer	267 + 9
Siemens	78 + 1 1/4	IBM	
IBM	14 1/2 + 1/4	Intel	38 + 7
		Ork Corp	216 + 6
		E Midstate Dist	624 + 14
		Metabond	724 + 14

## INTERNATIONAL COMPANIES AND FINANCE

## Setback for Wallenbergs as Investor drops sharply

By Hugh Carnegie  
in Stockholm

Investor, the main holding company of Sweden's powerful Wallenberg family, yesterday reported a sharp fall in profits in 1993 as reverses at Saab-Scania, the vehicle and aerospace group, and a fall in capital gains left profits after financial items at SKr410m (\$32m), down from SKr1.48bn in 1992.

However, the group painted a brighter picture for 1994. It said income in the latter part of the year surged, mainly due to a strong recovery at Saab-Scania, Investor's chief offshoot, producing a fourth-quarter profit of SKr194m, compared with a loss in the same

1992 period of SKr147m.

The dividend was unchanged for the second year running at SKr5.25 per share and Investor's most-traded B shares rose SKr5.00 to close at SKr191.

Investor, which apart from Saab-Scania has strategic holdings in top Swedish industrial companies such as Astra, Ericsson, Electrolux and Stora, said its net worth rose over the year to SKr37.5bn from SKr30.1bn.

The value of its strategic portfolio at the year-end was up 41 per cent at SKr27.96bn - lagging a 54 per cent rise in the Affärsvärlden general index. But a combination of sales from the industrial portfolio and positive cash flow from

Saab-Scania and a reduction in working capital tied up in Saab-Scania saw group net debt fall sharply to SKr1.85bn from SKr6.7bn.

Income from capital gains fell to SKr1.4bn from SKr2.37bn as portfolio sales fell.

Profits at Saab-Scania fell to SKr1.86bn from SKr2.13bn, with the truck and bus and aircraft divisions reporting lower income, and a fifth successive loss for Saab Automobile, which is jointly owned with General Motors of the US.

Saab-Scania sales rose 2 per cent to SKr26.99bn from SKr26.59bn, but were down 10 per cent after exchange rate advantages were discounted.

## BOC Group in surprise Giordano appointment

By Andrew Bolger in London

BOC Group surprised the London stock market by appointing Mr Richard Giordano as non-executive chairman - only two years after the American stepped down as chairman and chief executive of the UK-based industrial gases and healthcare company.

Mr Giordano, 59, is best known as Britain's most highly-paid executive during the early 1980s. He started work in January as the £450,000-a-year non-executive chairman of British Gas. His other non-executive directorships include Grand Metropolitan, BTZ, Lucas and Reuters, although he intends to reduce this number. BOC said his principal activities and office would remain at British Gas.

BOC has appointed Mr Giordano, who had continued on its board as a non-executive, because of next month's early retirement of Mr Patrick Rich, 62, because of health problems. Mr Rich, who had intended to stay on for two more years, recently gave up the post of chief executive to Mr Alexander "Pat" Dyer, a 61-year-old American with 30 years experience of the international gases industry.

Analysts said Mr Giordano "knew BOC inside out", but the appointment looked stop-gap and did not answer longer-term questions about the succession. During his years at BOC, Mr Giordano improved productivity and expanded into Asia Pacific, but made two acquisitions which proved expensive mistakes.

BOC last month reported first-quarter losses as a result of an £85m restructuring provision. The group said pressures on industrial gas profit margins would remain intense until recovery gathered strength. Healthcare profits had suffered because of generic competition for its anaesthetic, Forane, on which US patent protection expired last year.

BOC said Mr Giordano's salary had yet to be agreed but "would entirely reflect the non-executive and part-time nature of the appointment".

## Carmakers gamble on small concept

Kevin Done in Geneva sees the unveiling of the micro compact cars

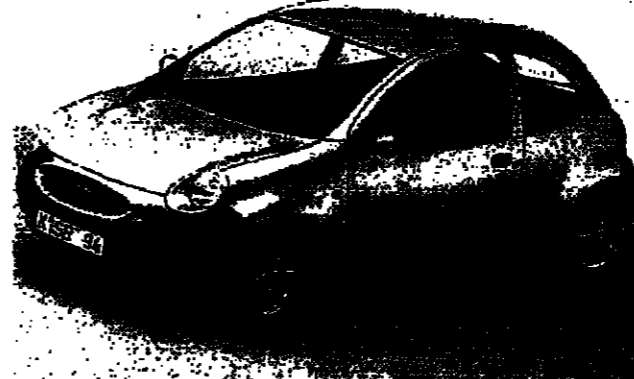
The Geneva motor show, which gets under way today, will see a number of new concept cars unveiled.

The joint venture between Mercedes-Benz, the German luxury carmaker and SMH, the Swiss pioneer of cheap and cheerful watches, to develop a micro compact car is the most striking sign yet of the determination of carmakers in Europe to develop a new market for minicars for use in congested, densely populated cities.

For several years carmakers have flirted with ideas for two-seater city cars with a length well below even the 3.05 metres of the British Mini, now in its 36th year of production. Their appetites are whetted by the prospects of new growth offered by opening up a new segment at the bottom of the car market.

However, they have fretted over the economics of such car programmes. Small cars often threaten small profits, and at the same time the customer research has been confusing. The concept cars may look cute, be environmentally friendly, and statistics may prove that cars in cities are only occupied on average by 1.2 persons, but will people buy two-seater city cars?

Professor Ulrich Seiffert, research and development director of Volkswagen, Europe's leading volume carmaker has a small model of the VW Chico concept car on a cabinet in his office in Wolfsburg. The Chico has been exhibited at many international motor shows, and it was



Ford's Ka will go on display in Geneva today

to be VW's city car of the second half of the 1990s. But it will never be built. It allowed only 2+2 seating rather than room for four adults and VW has decided that the concept was not viable.

Instead it is backing the idea of a cheap small car to be sold for under DM15,000 (\$3,823), but which will carry four adults and some luggage. It is due for launch in 1996. It will be shorter than the new Polo supermini, to be unveiled later this year, but it will share many basic chassis platform components with the Polo.

Volkswagen was the first carmaker to join SMH to study the concept of the so-called Swatchmobile micro car, but it pulled out of that project last year in the face of mounting financial problems.

Mr Nicolas Hayek, chairman of SMH and the man credited with masterminding the rescue

of the Swiss watch industry in the 1980s, claims that he did not lack for suitors for his Swatchmobile project, when it was abandoned by VW.

By the end, the main rival to Mercedes-Benz was General Motors, the US carmaker. Like all its rival volume carmakers GM has long been studying the potential of the so-called sub-B segment of the European car market beneath the B-class superminis such as the Opel/Vauxhall Corsa, the Ford Fiesta, the Renault Clio and the Nissan Micra.

It was intrigued by the Swatch marketing expertise, and by SMH's ideas for hybrid propulsion systems combining electric power and internal combustion, but like VW it has struggled to stand up the business case for a purely two-seater urban car. It was also troubled by the safety issues raised by such a small car.

The traditional volume carmakers are still experimenting and hovering on the brink, and at the Geneva motor show, Ford will unveil today its latest concept for a sub-B car, the Ka, to further assess the reactions of potential buyers.

The ebullient Mr Hayek has never been plagued by the big carmakers' doubts. He says he has been driven by the conviction that there is a gap at the bottom of the market for "a high quality, environmentally friendly, low price car". The success of the concept will be supported, he says, by the classic image of the Swatch brand, as well as by SMH's experience in microelectronics and in the assembly of a high quality product using fewer parts.

For Mercedes-Benz the joint venture with Swatch is the most tangible sign yet of its earnest to jump over its own shadow as it transforms its strategic product policy in the search for new markets.

Mr Helmut Werner, Mercedes-Benz chief executive, claims that its traditional customers are on the move into new markets, and the executive and luxury carmaker wants to be there to meet them.

Behind closed doors, Mercedes-Benz has worked for more than a decade on concepts for urban micro cars, and it believes that the time has come to roll the dice.

"We intend to create a market segment which has hitherto not existed in this form yet provides substantial growth potential," says Mr Werner boldly.

## BBA warns on jobs and dividend

By Tim Burt in London

BBA, the engineering group, yesterday warned it was planning to cut its dividend and shed 2,000 jobs as part of a rationalisation programme.

The moves have been forced on the company by a slide in profits in its motor components business and shrinking margins in its aviation arm.

After charges related to rationalising the businesses, BBA incurred a £12.8m pre-tax loss last year, compared with a £47.4m profit in 1992.

Mr Roberto Quarta, chief executive, said the losses had been exacerbated by £76.6m in rationalisation costs for ongoing businesses, of which

£59.7m has been set aside for redundancies and plant closures this year and next.

The results were hit by £17.8m of exceptional losses on selling or closing non-core businesses, while the group wrote off a £3.8m investment in United Industries, the precision tools and springs manufacturer. These charges were offset by a profit of £18.4m on the sale of Pacific BBA, its Australian subsidiary.

Faced with heavy provisions and depleted earnings, Mr Quarta warned that the 1993 dividend - unchanged at 7.5p - would be cut by up to 3p next year. "Earnings are not growing fast enough to maintain current dividends - that

is unacceptable," he said.

The announcement prompted a 9p fall in BBA's shares, which closed at 207p.

Mr Quarta said up to 2,000 jobs would have to go as the company refocused on its core businesses. Most of those job losses, coming on top of 1,000 redundancies last year, would be in the automotive division, where operating profits fell 42.8 per cent to £21.5m.

The company is understood to have identified nine companies which it would like to sell, reducing subsidiaries to about 40. Operating profits inched ahead to £89m, from £87.3m, while turnover increased 7.2 per cent to £1.42bn. *Lex, Page 18*

## BCH to place \$104m Aumar stake

By Tom Burns in Madrid

Banco Central Hispano (BCH) is to place 13.49 per cent of the equity it owns in Aumar, the toll motorway operator, via a global offering worth about \$104m.

The share sale, which will commence next week with Salomon Brothers acting as global co-ordinator, provides a rare opportunity for institutions to break into the tightly-controlled Spanish motorway sector.

Aumar is Spain's second largest toll operator and its concessions, which are centred mainly along the Mediterranean coast, account for 25 per cent of the domestic toll motorway network.

According to James Capel, the London stockbroker, Aumar's internal rate of return of 10.7 per cent is attractive against the long-term government bond yield.

BCH, which controls 67.39 per cent of Aumar, will remain the majority owner with 53.9

per cent of the stock. Under the terms of the bank's agreement with Salomon Brothers, 9.37 per cent of the equity to be sold will be offered to international institutions and the balance will be placed on the Spanish markets in an allocation that will be split evenly between domestic institutions and small retailers.

The Aumar offer is likely to be the first of several disposals by BCH from its industrial portfolio in order to strengthen its 1994 balance sheet.

## Peugeot and Finaxa in FFr6bn cash call

By Alice Rawsthorn  
in Paris

Two French companies will today announce plans to raise capital through the bond market. Peugeot, the motor group, launches a FFr3.98bn (\$671m) convertible issue and Finaxa, a subsidiary of the Axa insurance concern, is staging a FFr1.9bn convertible issue.

Peugeot, which last summer raised FFr1.5bn from a bond issue by its car subsidiary, said it had decided to go ahead with

the exercise to take advantage of favourable market conditions following recent reductions in interest rates.

Peugeot said it planned to use the issue to restructure its borrowings.

The timing of the transaction, which will involve the issue of 4m bonds at FFr980 each, coincided with indications from the French government that it might slow down its privatisation programme possibly by postponing the proposed sale of Renault, the other large French motor

group. Peugeot, like Renault, has had a difficult time over the past year due to the intensely competitive condition of the European motor market.

It fell into the red with a net interim loss of FFr1.12bn in the first half of 1993, against a deficit of FFr2.3bn in the same period of 1992.

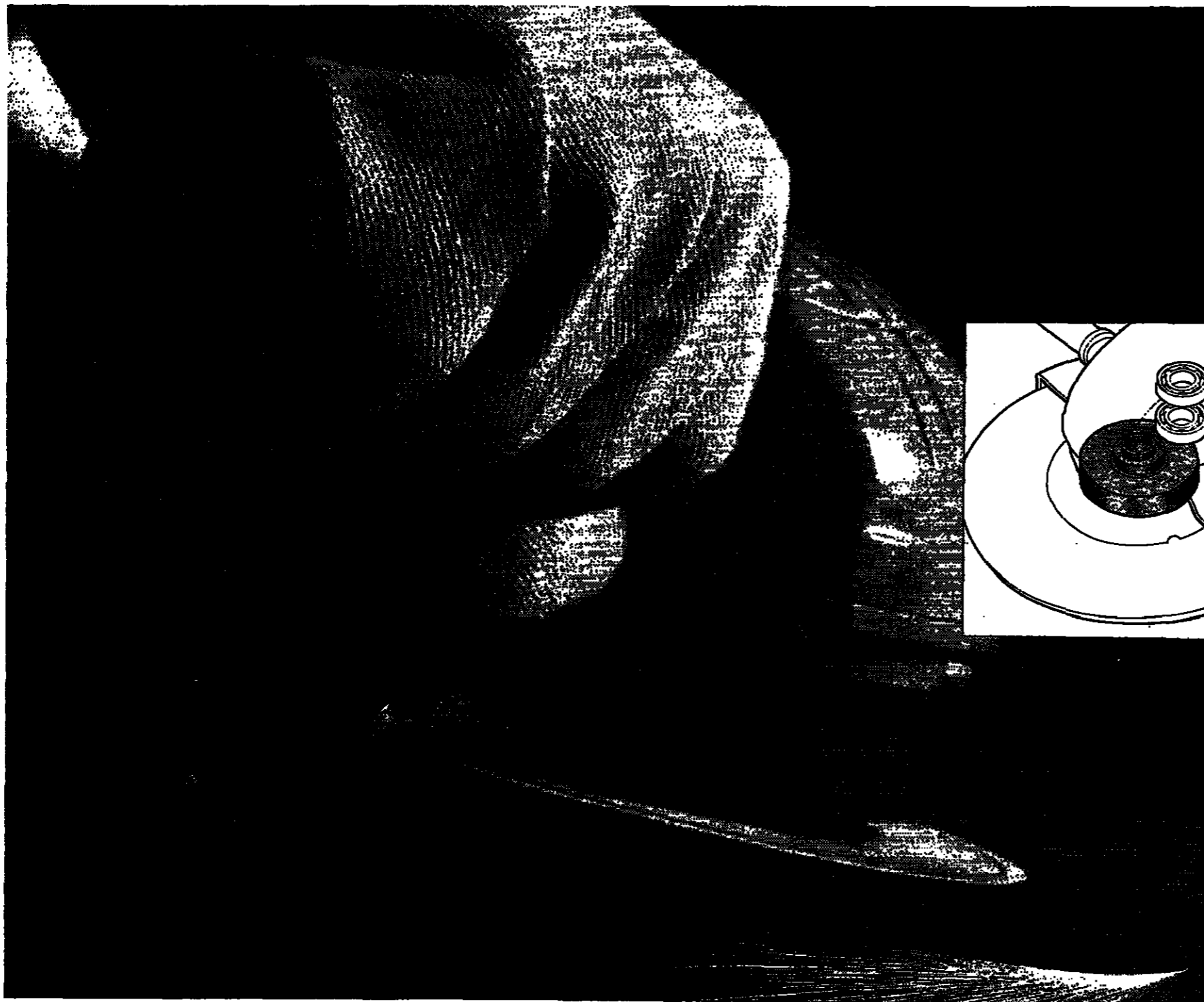
Its 1993 results are due to be published in late April. In the meantime Mr Jacques Calvet, chairman, has consistently declined to comment on its performance for the full financial

year. Meanwhile Finaxa, which is controlled by Axa, but also has the Paribas financial group as a sizeable minority shareholder, is today issuing 1.44m convertible bonds at FFr1,370 each.

Neither Axa nor Paribas will subscribe to the Finaxa issue thereby reducing their holdings.

Axa will retain control but with a stake reduced to 54.2 per cent from 61.4 per cent. Paribas's holding will be reduced to 23.8 per cent from 38.7 per cent.

# SKF cuts down vibration



In developing their powerful new turbine-driven grinder Atlas Copco were determined to reduce vibrations.

As the world leader in pneumatic hand tools it was natural to call for the co-operation of the world leader in rolling bearings. Working with the Atlas Copco team, SKF developed a special unit which constantly counter balances the grinding wheel and reduces vibration.

Another problem was that the high speed of the new turbo grinder would have meant a shorter life for standard bearings. The SKF solution was to use hybrid bearings with balls made of ceramic material harder than steel and lighter. They can also run faster and last longer.

A high technology partner in many industry development teams, SKF works closely with customers to solve problems quickly and economically.

### 1993 SKF Group Results

The SKF Group's sales during the 1993 fiscal year totalled 29,200 million Swedish kronor (£2,498 m) compared with SEK 26,649 m (£2,610 m) in the preceding year. Following adjustment for CTT Tools, which was included in the 1992 sales figure, and the effects of the weaker Swedish krona, Group sales decreased by approximately 4 percent, compared with 1992. The Group's loss after financial income and expense was SEK -669 m, (£-57 m) compared with SEK -1,777 m (£-174 m) in the preceding year.

In addition to earlier allocations, costs of approximately SEK 250 m (£21 m) for the ongoing rationalization process were charged against results for the year. During the final quarter of the year, a gain of approximately SEK 160 m (£14 m) was recorded, relating to the sale of fixed assets.

The 1993 fiscal year was yet another year characterized by extensive restructuring activity within SKF. Cost reductions and continued personnel reductions were combined with productivity improvement measures, intensive market cultivation and an unchanged level of investments in research and development.

During the final quarter of the year, however, an improvement in sales was noticeable and deliveries increased. The improvement applied to both the automotive and the machinery segment, as well as the after-market.

SKF continued to reap successes in the automotive industry.

SKF was appointed supplier for almost all of the bearing applications in the Saab 900.

SKF also supplies Hub Units for such vehicles as the new Opel Astra, Citroën Xantia and Fiat Punto.

In the trucks segment, SKF is the main supplier of bearings for the FH series, Volvo's new truck generation.

### Prospects for 1994

During 1993 the Group's results improved gradually. This development is expected to continue during 1994 and lead to a positive result.

Average rate of exchange  
1993: 1 GBP = 11.69 SEK. 1992: 1 GBP = 10.21 SEK.

**SKF**

## INTERNATIONAL COMPANIES AND FINANCE

## Carrefour keeps up recovery as profits double

By Alice Rawsthorn  
in Paris

Carrefour, the largest French food retailing group, yesterday announced that it continued its recovery last year by more than doubling net profits to FF3.01bn (\$500m) in 1993 from FF1.33bn in 1992.

The group, which in 1992 suffered a sharp fall in profits, last year benefited from a steep increase in its exceptional gains. It made a windfall profit of FF1.38bn from the FF1.8bn placing in March of a large minority stake in Castorama, the largest French do-it-yourself chain.

However, Carrefour also had to make provisions to cover the closure of two hypermarkets in Philadelphia. As a result it made total profits of FF1.34bn on non-recurring items, against a compar-

able loss of FF4m in 1992. The group, like the rest of the French retail sector, last year experienced difficult trading conditions. Consumer spending throughout France was depressed by the combination of high interest rates and fears about rising unemployment, although sales of food and other basic items were less badly affected than other sectors.

Carrefour mustered a 5.2 per cent increase in sales to FF123.2bn in 1993 from FF117.14bn in 1992 while profits before exceptional items rose by 24.8 per cent to FF1.68bn from FF1.34bn.

The board proposed a dividend of FF42 a share for the 1993 financial year, an increase over its FF35 payment in the previous year. It also yesterday announced plans for a one-for-one scrip issue.

## Worries cast shadow over Canadian banks

By Robert Gibbons

Worries over interest rates and continuing property problems are overshadowing Canada's six largest banks after a strong first quarter.

Earnings for the three months to January 31 were generally higher than expected. Led by Royal Bank of Canada, the six reported net profit of C\$1.13bn, up 43 per cent from a year earlier.

The gains were driven mainly by the banks' brokerage subsidiaries, reflecting booming stock markets and mutual fund (unit trusts) business. Also loan losses declined and non-performing loans eased.

Return on assets and on equity generally improved and costs were held in control.

Mr Al Flood, chairman of the Canadian Imperial of Com-

merce, said he sees clear signs of economic recovery in North America and Mr Allan Taylor, chairman of the Royal Bank, foresaw a return to a solid level of profitability in the fiscal year to October 31 1994.

But brokerage and investment banking may not keep up the momentum of 1993 and "there's nothing in the fundamental economy to make banking more profitable," said Mrs Donna Tyth, bank analyst with Nesbitt Thomson in Toronto.

The commercial property crisis is still severe and like a millstone around most banks' necks, said another analyst, "and it's not getting much better."

Loan losses would linger, said Mrs Susan Cohen, of Descon Barclays de Zeele Weid, but the key variable is the course of short-term interest rates.

## Regulatory delay may hold up Rogers bid

By Robert Gibbons  
in Montreal

Rogers Communications was yesterday considering a delay in the expiry date for its C\$2.8bn (US\$2.08bn) bid for Maclean Hunter, the Canadian publishing and cable TV group, from March 15 to the end of the month because a US regulatory ruling will probably not be received by next week.

Rogers, Canada's biggest cable TV distributor, applied on March 3 for fast-track approval by the Federal Communications Commission of its proposed acquisition of Maclean Hunter's US cable TV business and licences. This is a key step in Rogers' plan to acquire all of the group, including the US and Canadian cable interests and Canadian publishing businesses.

Rogers has said it would eventually sell the US cable licences to help pay for its overall bid for Maclean Hunter. But the FCC indicated it could not process Rogers' application in time for the March 15 expiry date. It promised to disclose its timetable later yesterday.

The extension of the expiry date would give Maclean Hunter more time to organise a counterbid. Maclean Hunter told shareholders yesterday they should delay tendering their shares to Rogers until the last moment so they could "consider any developments occurring prior to the expiry".

Shares deposited under the Rogers offer cannot be withdrawn after March 8 unless the offer is subsequently amended. Rogers was due to hold its annual meeting in Toronto today.

Rogers and Shaw Communications, Canada's third biggest cable TV company, have now agreed to swap some of their cable systems. The result would be that Rogers would take control of the key Toronto area in return for selling two western Canada systems to Shaw.

## Bond fund managers heave a sigh of relief

Tracy Corrigan, Conner Middelmann and Sara Webb find modest signs of a recovery

The agonies of the past month are finally easing for those bond fund managers who cling to economic fundamentals, while selling by hedge funds and proprietary traders drove prices further and further down.

After giving up as much as six months' worth of gains in the past four weeks, European bond prices are staging a modest recovery.

"We have become much more optimistic over the last few days that we have seen the worst," said Mr Paul Abberley, head of fixed income at Lombard Odier. "The main thing is that the hedge funds seem to have stopped selling."

Unlike hedge funds and proprietary traders, traditional fund managers tend to take a long-term view on their investments, based on economic fundamentals. From their viewpoint, European bond markets appeared attractive at the start of this year, even after disappointment over the Bundesbank's slow pace of interest rate easing set in.

Logically, then, the ¼ point increase in US short-term rates should not have caused a turnaround. The economic cycle in

the US is well ahead of Europe, and further easing of European interest rates is still widely expected.

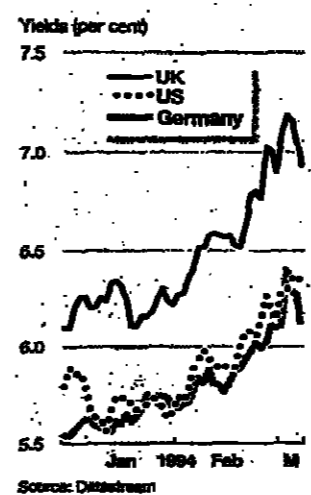
"In the big picture, we do feel the correction and blood-bath (in European bonds) has been overdone. In the last week we've been adding to our positions," said Mr Jonathan Kelly, manager of Fidelity's Global Bond Fund in Boston, with about \$750m under management.

Investors have been particularly encouraged by the fact that European bonds rallied last Friday, while the US market fell in the wake of a substantial drop in US unemployment. This rekindled hopes that the European market is no longer tracking the US market.

Not surprisingly, though, investors are adopting a cautious stance, even to the prospect of this decoupling.

"It is probable that we will now see a phase of decoupling from the US, but I don't think we'll go in the opposite direction," said Mr Karl-Wilhelm Knigge, senior portfolio manager responsible for international bonds at Union Invest-

10-year benchmark bonds



ment Gesellschaft, which manages a total of DM37bn.

Mr Udo Behrenwaldt, managing director of DWS, Deutsche Bank's fund management subsidiary, agrees: "I don't think Europe will totally decouple (from the US), but further rate cuts by the Bundesbank will help European bond markets achieve greater independence

from the US Treasuries market."

Given the lack of support from the US market, the rebound in European bond prices is likely to be somewhat constrained.

Another check on the rally could be the number of long positions still in the market.

"The 'conventional' fund management community is still very long (on European bonds) and will take the opportunity to reduce exposure as the market moves up," said Mr Abberley.

Further, Mr Kirit Shah, international strategist at First Chicago, points out that "the pool of investors has shrunk significantly; hedge funds and aggressive trading houses won't buy as madly as they did in the past."

Nevertheless, many bond fund managers say they are now cautiously increasing their exposure to European bonds.

Mr Nick Henderson, head of fixed income at Gartmore, said he was extending the maturity and putting new money to work in the European government bond markets as it was a good buying opportunity.

"We have done some selling but have remained long throughout given that we are driven by market fundamentals, we had to stay long," said Mr Abberley. He adopted some more protective positions by outright selling and by switching from high to lower yielding bond markets, but now favours the high-yielding bond markets.

Fidelity also increased its position in Europe last week. "All we've done in the (bond market) sell-off is reshuffle our positions... we've placed renewed emphasis on France and Italy by adding to our positions and going along the curve."

There are still some black clouds on the horizon, though. The European bond market could well prove vulnerable to a further rise in US interest rates or US inflationary fears, political disruption in the former Soviet Union, or the US/Japan trade dispute.

And without the heavy inflow of capital from speculative investors, the return to last year's peaks could take some time.

## Statute change makes sale of Ascom stake likely

By Ian Rodger in Bern

Ascom, the troubled Swiss telecommunications equipment group, was effectively put up for sale yesterday.

The Swiss government approved change in the statutes of the Hasler Works Foundation, enabling it to sell any or all of its 54 per cent voting stake in the group.

Mr Heinz Frey, chairman, said there was now nothing

preventing anyone from taking over the troubled group, although he doubted that the foundation would sell part or all of its shares without the approval of the Ascom board.

Ascom has a number of successful product lines, including payphones, cordless telephones and corporate network systems, but it has been unable to develop a successful overall strategy or unified management since its creation through

the merger of three Swiss telecommunications companies in 1987.

In 1992, it fell into the red, losing SF746.4m (\$32m) on sales of SF3.57bn. Last year, it is believed the group lost over SF300m. The former chief executive, Mr Leonardo Vannotti, was sacked in December.

The finance director Mr Klaus Rüttschi resigned in January and Mr Frey said he and two other of the 13 directors will stand down in May.

Mr Frey said that the change in the Hasler Foundation statutes also made possible equity-supported joint ventures with other companies in specific sectors.

Yesterday, the group announced an intensification of Ascom's existing co-operation with Ericsson of Sweden. The two have signed a memorandum of understanding to set up an Ericsson-controlled venture in public telecom equipment in Switzerland.

Mr Fred Sutter, Ascom's new chief executive, outlined a new group strategy, concentrating on three core business areas: telecom terminals, corporate networks and service automation. Peripheral activities, such as cable television, hearing aids and microelectronic components, would be sold off or put into joint ventures.

He said the group would break even this year and return to profit in 1995.

## Valmet sells unit for FM600m

By Hugh Carnegie  
in Stockholm

In a significant pre-privatisation restructuring within Finland's state-controlled industry, Valmet, the paper machinery and engineering group, is to sell its transportation and tractor business to Sisu-Auto, maker of heavy trucks, military vehicles and freight-moving equipment, for FM600m (\$107.8m).

Both companies are on the list of state-owned groups which the centre-right government intends to at least

partially sell, although no timetable has yet been specified.

The sale is designed to narrow further the focus of Valmet, which is 78 per cent state-owned, on forestry industry processing machinery before implementation of the government's plan to lower its stake to between 30 and 50 per cent.

Valmet said the move would have a neutral effect on profits - which reached FM100m last year - while strengthening its equity-to-assets ratio.

At the same time, the deal will transform Sisu-Auto, now

96 per cent state-owned, from a company with sales last year of FM918m to a group with combined 1993 sales of FM4.26bn and production plants in Finland, Sweden, Germany, Portugal, the US and Brazil.

The merged businesses last year produced profits after financial items of FM82m. The government plans to lower its holding in Sisu-Auto to between 50 and 65 per cent.

Valmet is to retain a 24 per cent stake in the new company worth FM185m. This stake was part of the net purchase price of FM600m, Valmet said.

This announcement appears as a matter of record only.

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# £1 billion...8 days ...5 continents

Burswood Property Trust - Aus\$304 million bought deal  
Sole underwriter and broker. Executed 21 February 1994.

Graham Group - £209 million flotation proceeds for BTR  
Joint sponsor, sole underwriter and stockbroker. Impact Day 22 February 1994.

Fidelity Japanese Values - £90 million flotation  
Sole sponsor. Impact Day 22 February 1994.

HSBC Holdings - £600 million enhanced scrip dividend  
Underwriter and arranger, with cash alternatives in sterling and Hong Kong dollars.  
Underwritten 28 February 1994.

Sun Healthcare Group - US\$83 million convertible debt  
Sole lead manager. Closed 1 March 1994.

Meditrust - US\$90 million convertible debt  
Sole manager. Priced 2 March 1994.

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## INTERNATIONAL COMPANIES AND FINANCE

## Hong Kong SE proposes broad reform

By Louise Lucas  
in Hong Kong

The Hong Kong stock exchange, now the sixth biggest in the world, yesterday unveiled its blueprint for the next three years and beyond, with proposals including greater self-regulation among market players and tougher disclosure requirements in line with its bid for increasing internationalisation.

The consultative paper, which follows more than 50

meetings with market professionals and the relevant government and private-sector bodies, proposes to switch from a common law-based regulatory system to one which relies more on disclosure enforced by sanctions, conforming with US and international market practice. There are also calls to remove the onus for vetting listing documents and disclosures from the exchange and place it directly on the issuers and their professional advisers. According to its proponents,

self-regulation would speed the processes of listing approval and disclosures, now considered too slow.

A company listing in Hong Kong typically waits three to four months for the go-ahead; in the US this can be as short as six weeks.

The document warns that as the domestic market is approaching saturation in terms of companies seeking listings, the exchange must look to China and beyond both for new issues and investors,

and position itself to meet their needs.

The exchange was also urged to look at ways of extending market automation - especially in terms of trading, settlement and registration - and to speed up plans for developing the listed debt market.

Other issues on the agenda include:

- Putting a cap on the Compensation Fund, which now stands at more than HK\$280bn (US\$36bn), and using excess levy receipts for other initiatives

to help the market community.

- Looking at creating Hong Kong depository receipts on regional blue chip companies;
- More exhaustive disclosure, and the introduction of annual valuations of assets;
- Abolishing the board lot system and scrapping share certificates - possibly along with the rules for spreads;
- Reduction or removal of stamp duty;
- Development of further indices on the Hong Kong market.

## PosGold raises bid for Aztec Mining

By Nikkai Tait  
in Sydney

The bid battle over Aztec Mining, the diversified Australian mining group, was stepped up yesterday when PosGold Investments, part of Mr Robert Champion de Crespigny's Normandy Poseidon group, announced it was raising its cash offer to 74 Australian cents a share.

This compared with a previous bid of 68 cents a share, and values Aztec at A\$287m (US\$206m).

Aztec, which last week found a "white knight" in the shape of Pancontinental Mining, said it did not intend to make any statement immediately. The recommended merger with Pancontinental was an all-paper deal and Aztec shareholders were offered a mixture of Pancon shares and options in return for their Aztec stock.

When the deal was announced, Pancon's shares were trading at about A\$1.85, and that deal was said to be worth 76 cents per Aztec share. However, the Australian stock market fell back last week, lowering Pancon's offer to below 70 cents. Yesterday, Pancon's shares closed five cents up at A\$1.70.

The revised PosGold offer is now free of certain conditions, meaning that the bidder can acquire Aztec shares in the market, where they were trading yesterday at 68 cents. Ahead of yesterday's announcement, PosGold controlled less than one per cent of its target's equity.

The other key is Alumax, the US company which owns 37 per cent of the target company's shares. It had thrown its support behind the agreed merger, but said only that it intended to accept Pancon's offer "unless a better offer materialises".

## Record exports for South Korea car companies

By John Burton  
in Seoul

South Korea's four main motor vehicle companies reported increased sales for 1993, although two remain in the red.

Exports reached a record 639,000 vehicles, benefiting from the depreciation of the Korean won against the Japanese yen. Increased sales in the developing world, including south-east Asia, the Middle East and Latin America, were largely responsible for the rise in exports.

Domestic sales were helped by low-interest financing as car companies competed to increase their market share.

Hyundai Motor, the nation's largest car company, reported a 33 per cent increase in net profits to Won\$8.2bn (\$72m), as sales rose 18 per cent to Won\$1,800bn. It predicts a 18 per cent jump in sales to Won\$2,500bn for 1994.

Exports rose 19 per cent to 337,640 vehicles, and this year are expected to rise 14 per cent to 385,000.

Domestic sales increased 9 per cent to 453,600 vehicles and Hyundai predicts 18 per cent growth to 525,000 this year.

Last year the company had a 46 per cent share of the Korean motor market.

Kia Motors reported net profits increased 24 per cent to Won\$18.7bn in 1993, while sales rose 25 per cent to Won\$4,110bn. It predicts a 33 per cent increase in sales to Won\$5,600bn for 1994.

Exports grew 54 per cent to 153,415 vehicles and are expected to expand 64 per cent to 260,000 this year, as Kia increases its US presence by establishing a dealership network.

Domestic sales increased 18 per cent to 520,000 vehicles last year, giving it 27 per cent of the Korean market.

Daewoo Motor narrowed its loss to Won\$6bn in 1993 from Won\$9bn in 1992, and predicts a profit this year as exports increase 40 per cent. Sales rose 29 per cent to Won\$2,200bn and are predicted to jump 45 per cent to Won\$3,200bn in 1994.

Ssangyong Motor reported a Won\$7.1bn loss in 1993 against a Won\$8.8bn loss in 1992. But sales rose 12 per cent to Won\$32bn. The results reflected increased competition in the market for sports utility vehicles, the company's main product.

## Return to profit for Norske Skog

By Karen Fossli in Oslo

Norske Skog, one of Scandinavia's biggest pulp and paper producers, announced a return to profit in 1993, helped by a successful cost-cutting programme and despite lower prices for the Norwegian group's main products.

The group achieved a pre-tax profit of Nkr4m (\$36,600) in 1993 against a pre-tax loss of Nkr662m the previous year, due to increased production and lower finance costs.

The board proposed a dividend of Nkr1 for 1993, after passing the payout in 1992, and forecast higher profits for 1994 in spite of expected higher financial items.

Last year revenue fell by Nkr219m to Nkr7,340m due to lower prices for sulphate pulp, printing paper and building materials, which had also caused a decline in revenue of Nkr2.2bn between 1990 and 1993. Increased volume compensated for lower prices.

The group achieved an operating profit of Nkr299m in 1993, against a loss of Nkr47m in 1992 when restructuring costs of Nkr200m were charged against accounts.

Norske Skog said that it met its goal to cut costs by Nkr700m between 1991-93.

## Turnround at Finnish metals group

By Christopher Brown-Humes  
in Stockholm

Outokumpu, the Finnish mining and metals group, achieved a FM297m (\$53m) profit before extraordinary items in 1993, ending a three-year run of losses despite weak market conditions.

The result, a sharp turnround on 1992's FM332m deficit, was helped by the weaker Finnish markka, restructuring, reduced exchange losses and lower interest rates.

However, the group will again pay no dividend, partly because of the uncertain market outlook. Mr Jyrki Juusela, chief executive, warned conditions would remain difficult in

early 1994 although "demand for metals and metal prices are expected to improve moderately during the next few months".

He promised further restructuring of the group's copper products division, which remained in the red in 1993 with a FM502m loss before extraordinary items.

The group's three other divisions, base metals, stainless steel and technology, all reported profits, although low metal prices meant the base metals surplus sank to FM152m from FM404m. Best performer was the stainless steel division which lifted profits before extraordinary items to FM706m from FM349m.

Group sales expanded to FM15.8bn from FM15.1bn, thanks to the improved trend within stainless steel and technology. Operating income amounted to FM846m, against FM604m, while net financial expenses fell to FM644m from FM1,066m. Group debt has fallen and equity has risen following the disposal of OM Group of the US and two share offerings.

The Finnish government is looking to reduce the state's 50.1 per cent ownership of Outokumpu as part of its broader privatisation programme. Parliament has already authorised a reduction in the state holding to 33.4 per cent.

Metra, the Finnish world leader in diesel power units, yesterday reported a profit after financial items in 1993 of FM472m, a sharp rebound from a loss in 1992 of FM40m.

The group also announced the launch of two convertible capital note issues of up to FM300m each to reduce borrowings. Net debt stood at FM4.6bn at the end of 1993, down from FM5bn, and the gearing ratio stood at 2.05.

Metra, which has its main businesses in diesel engines, sanitary ware and security products, said it was raising the dividend to FM2.80 per share from FM2.00.

## NEWS DIGEST

## Goldstar boosts profit by 147%

Goldstar, South Korea's second biggest electronics company, increased net profits by 147 per cent to Won\$5.8bn (\$51m) for 1993. Sales for the year climbed 14 per cent to Won4,320bn, writes John Burton.

Earnings growth was largely due to exports of consumer electronics, which were helped by the Korean won's fall against the Japanese yen. Exports rose 17 per cent to Won2,330bn, with sharp

growth in China and south-east Asia. Domestic sales increased 11 per cent to Won1,990bn.

## Berjaya to expand in Argentina

Berjaya, the fast-expanding Malaysian conglomerate, has announced the expansion of its wide-ranging gaming activities to Argentina, writes Kieran Cooke in Kuala Lumpur.

Berjaya, headed by Chinese Malaysian entrepreneur Mr Vincent Tan, is taking a 30 per cent equity stake in a casino at Puerto de Iguazu, Argentina,

for \$2.4m. Other partners in the Argentina project are reported to be Mirage Resorts of Las Vegas and Universal Casino Consultants of the UK.

## Rabobank pushes ahead 10%

Rabobank, the big Dutch co-operative bank, reported a 10 per cent increase in 1993 net profit to F1.1bn (\$570m) and predicted a further improvement in 1994, writes Ronald van de Krol in Amsterdam.

Lending expanded 9 per cent last year. Funds entrusted to the bank by account holders

grew by only 2.3 per cent, which Rabobank attributes partly to a growing interest in other types of investments following the general decline in interest rates.

## SNC-Lavalin posts gain to C\$16m

SNC-Lavalin, a big Canadian-based international engineering and construction management group, posted a 74 per cent gain in 1993 net profit to C\$16.3m (US\$12m), or C\$1.08 a share, on revenues of C\$797m, up 6.5 per cent, writes Robert Gibbons in Montreal.

This announcement is under no circumstances to be construed as an offer to sell or as a solicitation of an offer to buy any of these securities. The offering is made only by the Prospectus.

New Issue

February 25, 1994

6,000,000 Shares

## THE SOUTHERN AFRICA FUND, INC.

Common Stock

Price \$15 Per Share

Alliance Capital Management L.P. - Investment Manager  
Investec Asset Management (International) Limited - Sub-Adviser  
Sanlam Asset Management (Gibraltar) Limited - Sub-Adviser  
Merchant Bank of Central Africa Limited - Consultant to the Investment Manager

The New York Stock Exchange symbol is SOA

Copies of the Prospectus may be obtained in any State or jurisdiction in which this announcement is circulated from any such of the undersigned or other dealers or brokers as may lawfully offer these securities in such State or jurisdiction.

5,100,000 Shares

The above shares were underwritten by the following group of U.S. Underwriters.

Merrill Lynch &amp; Co.

Smith Barney Shearson Inc.

Alex. Brown & Sons Incorporated	Cazenove Incorporated	A.G. Edwards & Sons, Inc.	Lehman Brothers Incorporated
Oppenheimer & Co., Inc.	PaineWebber Incorporated	Wertheim Schroder & Co. Incorporated	
Robert W. Baird & Co. Incorporated	Cowen & Company	Crowell, Weedon & Co.	Doley Securities, Inc.
Fahnestock & Co. Inc.	First Albany Corporation	First of Michigan Corporation	
Interstate/Johnson Lane Corporation	Janney Montgomery Scott Inc.	Kemper Securities, Inc.	
Legg Mason Wood Walker Incorporated	McDonald & Company Securities, Inc.	Morgan Keegan & Company, Inc.	
Piper Jaffray Inc.	The Principal/Eppley, Guerin & Turner, Inc.	Ragen MacKenzie Incorporated	
Rauscher Pierce Refsnes, Inc.		Raymond James & Associates, Inc.	
The Robinson-Humphrey Company, Inc.	Scott & Stringfellow, Inc.	Stifel, Nicolaus & Company Incorporated	
Sutro & Co. Incorporated	Tucker Anthony Incorporated	Wheat First Butcher & Singer CAPITAL MARKETS	

900,000 Shares

The above shares were underwritten by the following group of International Underwriters.

Merrill Lynch International Limited

Cazenove &amp; Co.

Smith Barney Shearson Inc.

Daiwa Europe Limited

All of these securities having been sold, this announcement appears as a matter of record only.

New Issue

February, 1994

6,000,000 Shares

## Beazer Homes USA, Inc.

Common Stock

Dillon, Read &amp; Co. Inc.

Smith Barney Shearson Inc.

Bear, Stearns & Co. Inc.	CS First Boston	Alex. Brown & Sons Incorporated	Dean Witter Reynolds Inc.
Donaldson, Luffin & Jenrette Securities Corporation	A.G. Edwards & Sons, Inc.	Goldman, Sachs & Co.	
Hambrecht & Quist Incorporated	Kidder, Peabody & Co. Incorporated	Lazard Frères & Co.	Lehman Brothers
Merrill Lynch & Co.	Montgomery Securities	Morgan Stanley & Co. Incorporated	
Oppenheimer & Co., Inc.	PaineWebber Incorporated	Prudential Securities Incorporated	
Robertson, Stephens & Company	Salomon Brothers Inc	Wertheim Schroder & Co. Incorporated	



Abbey National  
Treasury Services plc  
US\$1,000,000,000  
Guaranteed Floating Rate  
Notes 1999

Notice is hereby given that the notes will bear interest at 3.75% per annum from 8 March 1994 to 8 June 1994. Interest payable on 8 June 1994 will amount to US\$9.62 per US\$1,000 note, US\$96.23 per US\$10,000 note and US\$962.33 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company  
JPMorgan

RIDGELTON LIMITED  
RIS\$1,000,000,000  
Floating Rate Bonds due 2000  
Guaranteed by  
RIDGELTON GUARANTEE INTERNATIONAL LIMITED  
Notice is hereby given that for the interest period from 1st March, 1994 to 31st August, 1994 (both dates inclusive) the interest rate has been fixed at 5.52% per annum. Interest payable on 31st August, 1994 will amount to RIS\$9.62 per RIS\$1,000,000.00 Floating Rate Bond.  
Wardley Limited  
Agent Bank

This announcement appears as a matter of record only.

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BioQuest Venture Leasing Partnership L.P.

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Financial Advisors:

MeesPierson Inc. H.C. Wainwright &amp; Co., Inc.

Placement Agents:

MeesPierson N.V. H.C. Wainwright &amp; Co., Inc.

in an offering of Limited Partnership interests valued at:  
**\$29,086,141**

General Manager:

Aberlyn Capital Management Limited Partnership

January 1994



## COMPANY NEWS: UK

## Exceptionals and computer side curb IMI

By Paul Cheeseright,  
Midlands Correspondent

IMI, international engineering group, saw pre-tax profits nudge up in 1993, but its advance was held back by losses in its computer business and by the restructuring of its fluid power division.

Pre-tax profits for the year to end December were £70.2m against £68m.

Earnings per share came out ahead at 13.8p (13.6p). A same-again final dividend of 5.8p is recommended, to maintain the total payment at 10p.

The figures were in line with expectations, but the promise of further recovery, implicit in the results and carefully indicated in the formal statement of the chairman, Sir Eric Pountain, helped the share price rise 7p to 347p.

Turnover increased to £1.06bn (£1.01bn).

Three of the four main busi-

ness groups - building products, drinks dispensers and special engineering - had significant increases in operating profits.

Only the fluid power division, where there was a decline in operating profits to £16.7m (£16.9m), broke the pattern.

Mr Gary Allen, the chief executive, reported a 3 per cent increase in trading volume in the US last year and a 2 per cent increase during the second half in the UK, but falls in Germany, Italy and Spain.

The troublesome titanium operations were in and out of profit during 1993, falling back into loss during the last quarter. Mr Allen expects the business to be in profit by the second half.

With losses at the group's copper tube plant eliminated by reductions in the cost base and a £30m investment programme, the group's problem area has been computers.



Gary Allen (left) and Sir Eric Pountain: carefully indicating the promise of better performance

Losses at Brook Street Computers led to the sale of the company, acquired in 1990, at a loss of £5.9m, shown in the accounts as an exceptional item.

Computers replaced titanium and copper as the gremlins in the IMI figures, which showed the group poised for, rather

than actually enjoying, recovery. The computer problems should sort themselves out this year as new products from the division come on the market. Like other engineering groups, IMI has been hounding both manufacturing and financial efficiency during the recession and an improvement in market conditions would rapidly come through to the bottom line. But

the prospects for that look patchy, suggesting a steady advance for the group this year, perhaps towards £90m pre-tax, and a much stronger move in 1995. With earnings going up to 18p a share, this would put the shares on a multiple of 18, more keenly priced than some of their peers but demanding of their holders patience as a virtue.

## D&G increases 30% to £4.45m

By Richard Lapper

Domestic & General, the domestic appliance insurer, yesterday reported pre-tax profits up 29.6 per cent to £4.45m for the six months ended December 31. The interim dividend goes up by 23.3 per cent to 9.25p.

Despite depressed conditions, sales of extended warranties and annual policies increased by 24.2 per cent to £32.58m (£26.23m).

Other income fell by 9.8 per cent to £238,000 (£265,000) but after claims and commissions D&G's trading activities yielded a surplus of £8.09m (£6.29m).

Expenses increased to £5.53m (£5.55m) and net investment income rose to £3.13m (£2.86m).

Mr Colin Honey, managing director, said that it was "too early to comment" about the Office of Fair Trading's investigations into extended warranties on electrical goods. The company is expected by analysts to emerge unscathed from the affair.

This is largely because the majority of its income is from direct mail or through manufacturers' schemes, rather than through sales of extended warranties through shops. Analysts suggest that D&G's policies are, on average, between 30 per cent and 50 per cent

cheaper than its competitors. Earnings rose to 43.51p (33.56p) per share.

D&G produced another good set of figures yesterday and with the OFT's interest in extended warranty business likely to work in the company's favour, there are no obvious clouds on the horizon. D&G looks set to make pre-tax profits of between £9.3m and £9.5m for the full year, continuing its strong earnings growth of recent years. A prospective yield of about 2 is half the market's average, but - by contrast - the multiple of about 20 looks undemanding.

## Wembley sells 50% of Pacer Cats in £17m deal

Wembley, the leisure group which owns the national stadium, is selling a 50 per cent stake in Pacer Cats, its computer ticketing subsidiary, in a bid to comply with a banking deadline to cut borrowings by £40m, writes Tim Burt.

Ticketmaster, the US computerised ticketing service, is paying £11m cash for the stake and will be forming a joint venture to develop the company.

Sir Brian Wolfson, Wembley chairman, said the joint venture would assume £6m of Pacer Cats' debt. "The transaction is worth £17m to Wembley and brings us close to the £40m demanded by our lenders. The

banks are very comfortable with the position."

The sale follows the disposal of several assets last year, including National Leisure Catering, Yankee Doodle, another catering group, and the Needles Hotel.

It is understood the disposal programme is now within 3 per cent of the total repayments due by March 31. Although the moves will significantly reduce Wembley's net debt, put at £139m at the interim stage last year, lenders, led by Barclays, have also demanded repayment of a further £10m by the end of the year.

## Royal Ordnance comes into the firing line

By Paul Taylor

Almost seven years after the government sold Royal Ordnance to British Aerospace for £190m, a question mark has once again been placed over the future of the arms and munitions manufacturer.

Bae confirmed at the weekend that it had been in talks for some weeks with Giat which could lead to some form of collaboration between the French state-owned arms manufacturer and its Ordnance subsidiary.

The acquisition in April 1987 not only strengthened Bae's already substantial defence business but appeared to ensure a stable future for 300-year-old Royal Ordnance following aborted plans for its stock market flotation a year earlier. At that stage Ordnance was a sprawling organisation employing 16,000 workers spread across 13 factories and two research and development sites.

With the Ministry of Defence as its biggest customer by far it had annual sales of £440m and a forward order book of £800m. Sir Austin Pearce, Bae chairman at the time, said of the deal: "We feel strongly we can

increase the business of Ordnance." However, he added more ominously: "Clearly there are areas where we can improve its efficiency."

Four months later, following a detailed study, it became clear what Sir Austin had meant when plans were announced to close the Enfield plant - source of the 2m .303 Lee Enfield rifles used during the First World War - with the loss of 1,200 jobs.

The job cuts at Enfield were to be the first of many as the 1980s drew to a close and defence spending was cut in the wake of the dramatic event in eastern Europe and the disintegration of the Soviet empire.

Since then Ordnance's UK-based workforce has been reduced to 5,500. Some 2,100 jobs have gone in the last two years and another 300 are to go at the company's ammunition factory in Chorley, Lancashire, under the latest round of cuts announced in January.

Bae, which last month reported a £273m pre-tax loss despite recording a £345m profit before interest and tax in its defence operations, does not break out figures for Ordnance. However, Bae describes Ord-

nance's operations today as "very competitive" and says it is "cash generative and broadly profitable" excluding the ongoing costs of rationalisation.

Ordnance, which has annual sales of about £400m, has been trying to build up overseas orders to help offset declining MoD expenditure. As part of this drive it acquired Heckler & Koch, a German small arms manufacturer, in 1991.

In October the company won a crucial MoD five-year contract worth about £250m to supply ammunition types ranging from small arms to tank shells.

The contract, delayed after coming under Treasury scrutiny, was won against fierce competition.

However, highlighting the effect of defence cuts, the new ammunition order was worth only about half the previous five-year deal agreed in 1988 and further job cuts and rationalisation measures have not been ruled out.

Even without the profit and loss figures it is clear that Royal Ordnance has not been the bargain some suggested it was at the time of the government sale.

## Close Brothers significantly ahead of forecasts at £16.7m

By Simon Davies

Shares in Close Brothers, the merchant banking and financial services group, rose 83p to 528p yesterday when the company announced interim profits significantly ahead of forecasts.

The company reported pre-tax profits of almost £10m to £16.7m for the six months to January 31. Analysts had been predicting figures in the region of £12m.

Winterlood Securities, the smaller companies market maker acquired for £18m last April, was a large contributor to the increase, accounting for

about 40 per cent of profits.

The remaining Close Brothers' businesses also put in a strong performance, recording a 45 per cent advance.

Winterlood benefited from the increased activity in the stock market, and made record profits during the period. The company now makes a market in 1,150 stocks and is moving to larger premises.

The merchant bank's loan portfolio grew by 23 per cent to £349m, and the group reduced the percentage of bad debts.

Corporate finance operations are geared to small and medium sized companies, and

Close Brothers has benefited from a surge in corporate activity among the smaller listed companies.

Prompt, the company's insurance premium financing subsidiary, saw a 32 per cent increase in volume in the period, while the asset leasing business also performed strongly.


The interim dividend is raised to 5p (3.2p), payable from earnings per share up from 11.9p to 22.2p. A 1-for-1 scrip issue is also proposed.

Close Brothers' shares fell 11 per cent last week, in part because of concerns that the company might be affected by a less confident stock market. It has provided a powerful defence at the interim stage. Brokers expect pre-tax profits to exceed £33m (previous forecasts had peaked at £25m), which puts the shares on a p/e of 12, even after the shares' meteoric performance yesterday. The momentum of the company's market making business may slow, but Close Brothers has a broad spread of businesses, which should perform strongly in the economic upturn: the shares should do likewise.

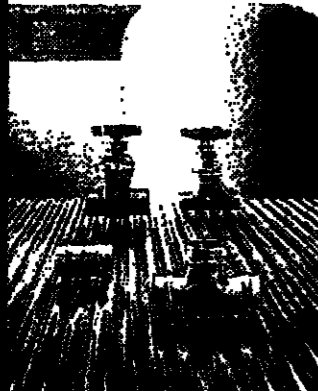
### DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Current dividend	Total for year	Total for year
B&A	5.25p	May 27	5.25	7.5	7.5
B&A Polythene	7.75	May 27	6.5	11.5	10
British Vita	3.75	May 9	3.65	7.4	7.15
Candover Investments	7.05	May 12	6.5	11	10.25
Close Brothers	51	Apr 22	3.2	-	11
Cornwall Parker	1.7	Apr 16	1.7	-	5.7
Domestic & Gen	9.25	May 5	7.5	-	22.5
IMI	5.8	May 16	5.8	10	10
Intrum Justitia	2.27	June 3	2	3.3	3
Lloyds Chemists	2.7	June 10	2	-	7.25
Parsons French	1	May 11	1	1	1
Parkinson Leisure	1.3	Apr 8	1.3	-	4
Parkinson Foods	2.7	June 3	2.7	4.45	4.4

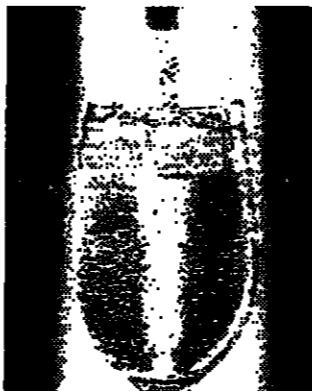
Dividends shown pence per share net except where otherwise stated. 10c increased capital, SUSM stock, WGS.



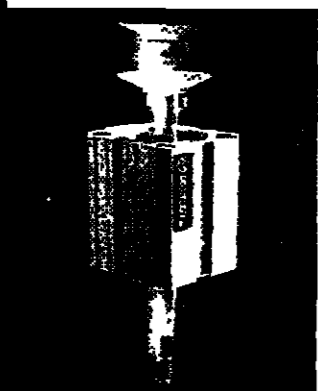
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*Sir Eric Pountain, Chairman*

	1993	1992
Sales	£1,065m	£1,006m
Profit		
(before exceptional items)	£71.7m	£68.0m
Profit before tax	£70.2m	£68.0m
Earnings per share		
(before exceptional items)	14.5p	13.6p
Earnings per share	13.8p	13.6p
Dividend per share	10.0p	10.0p

- increased profits in three of the four core businesses
- benefits arising from increased market share, better productivity and lower costs
- gearing reduced to 25%



IMI plc, PO Box 216, Birmingham B6 7BA. Telephone: 021 356 4848

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**COMPLEMENTARY DIVIDEND 1993**

The Annual General Shareholders' Meeting has approved the payment of a dividend of 169 pesetas for the financial year 1993 on all shares in issue, numbered 1 to 231,000,000. As three interim dividends of pesetas 38 each have already been paid, a complementary dividend will be paid as follows:

Gross Dividend	Tax	Net Dividend
55 ptas	13.75 ptas	41.25 ptas

Date of payment: on or after 11th April 1994

Payment: As the Bank shares are represented by entries in the official register maintained by the Servicio de Compensación y Liquidación, S.A. (the "SCL"), the payment of the dividend will take place through the members of the SCL.

**US\$125,000,000**

**First Chicago Corporation**

Floating Rate Subordinated Capital Notes Due December 1998

Notice is hereby given that the Rate of Interest has been fixed at 4% and that the interest payable on the relevant Interest Payment Date, June 8, 1994 against Coupon No. 30 in respect of US\$100,000 nominal of the Notes will be US\$1,022.22.

March 8, 1994, London

By: Citibank, N.A., (Issuer Services), Agent Bank **CITIBANK**

**Bank of Ireland**

**U.S. \$300,000,000**

Undated Variable Rate Notes

Notice is hereby given that the Rate of Interest has been fixed at 4 7/8% and that the interest payable on the relevant Interest Payment Date, June 8, 1994 against Coupon No. 19 in respect of US\$100,000 nominal of the Notes will be US\$1,245.83.

March 8, 1994, London

By: Citibank, N.A., (Issuer Services), Agent Bank **CITIBANK**

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## British Vita shows sharp fall to £33.7m

By David Wighton

British Vita, the foam and fibre group, saw profits drop from a restated £52.3m in 1992 to £33.7m last year as the recession in continental Europe took its toll.

The figures also bore £10m of trading and disposal losses relating to the group's withdrawal from Spain.

However, Mr Bob McGee, chairman, said that early indications for the current year were "heartening".

"Across Europe conditions appear to have stabilised, albeit at 1993 levels. Some recovery is showing through in the UK while North America continues to exhibit steady improvement."

Earnings per share fell from 15.6p to 9.6p, but dividends are up from 7.15p to 7.4p with a final payment of 3.75p.

Mr McGee said that while volumes in most areas, apart from Germany, had remained "reasonable", there had been increasing pressure on margins. Excluding acquisitions and disposals, sales rose 2.5 per cent to £712m.

Germany, which accounts for more than a fifth of group sales, bore the brunt of a cost

reduction programme which has reduced staff in continental Europe by 9 per cent.

Total rationalisation costs more than doubled to £28m.

Mr Kanak Bhatt, finance director, said that price pressure had been particularly intense in automotive products, which account for some 15 per cent of group sales.

Also, the Spanish foam manufacturer acquired in 1993, had been "losing a fortune" on automotive components while the group's Spanish plastics business was badly hit by the construction downturn. Both have been sold to management for nominal sums.

Thanks to a £73m rights issue two years ago the balance sheet is strong, with gearing of 14 per cent.

Mr McGee said the company was particularly keen to expand in the US and eastern Europe where its 58m foam plant in Poland will be commissioned next month.

Favourable exchange rate movements boosted operating profits by £1.4m and the group has switched to translating figures at average exchange rates, restating the 1992 results.

See Lex

## BBA tumbles £12.8m into the red

By Tim Burt

BBA, the engineering and motor components group, yesterday unveiled a new management structure aimed at returning the company to profit.

For the year to December 31 BBA swung from profits of £47.4m to pre-tax losses of £12.8m.

The diversified group has reorganised its businesses into three divisions comprising automotive activities, aviation services in the US and a single industrial and engineering unit.

The scheme has been implemented by Mr Roberto Quarta, chief executive, in a bid to refocus the company on core activities and to identify

peripheral activities for disposal.

Each division had been given set budget targets and chief executives have been appointed to see through a rationalisation strategy.

In the 12 months to end-December that strategy contributed to a £17.8m exceptional loss on plant closures and disposals - most notably on the closure of its friction materials plant in Belgium.

The group also wrote off a £3.8m investment in United Industries, the precision tools and springs manufacturer, in which it has a 21.25 per cent stake.

The exceptional provisions were offset only by an £18.4m

gain on the sale of Pacific BBA, its partly owned Australian subsidiary.

Mr Peter Clappison, finance director, said the disposals - including the £25m sale of three businesses since the year end - were part of an on-going restructuring programme which would enable BBA to exploit any revival in its core businesses.

He warned, however, there were few signs that such a revival was under way.

In the automotive division, for example, operating profits fell to £21.5m (£37.5m) on sales down 7.6 per cent at £374.1m.

"There's been extreme price pressure in continental Europe, and we anticipate a further 10 per cent decline in vol-

ume output next year," Mr Clappison added.

Profit margins in the division fell to 1.5 per cent in the second half of last year, compared with 5.6 per cent in the same period of 1992.

Initial signs, meanwhile, of a recovery in the aviation business were undermined by "extreme overcapacity and reduced demand in the US airline maintenance market". Its second half margins also fell sharply, down to 1.6 per cent from 4.2 per cent in the last six months of 1992.

The performance of the two divisions was offset by an improvement in the industrial and engineering division, which enjoyed a 42 per cent increase in operating profits to £55.3m.

## Process Systems rises to \$0.38m

Process Systems, the North Carolina-based maker of electronic monitoring, metering and energy management systems which has a London listing, lifted pre-tax profits by 68 per cent from \$224,776 to \$380,390 (\$260,500) in 1993.

The turnover advance to \$15.1m (\$12.4m) was mainly attributable to continued market penetration by the QUAD4 solid-state meter into the electric utility industry.

Net profits were \$405,300 (\$228,776) for earnings of 0.73 cents (0.41 cents).

## Pict Petroleum drops to £1.9m

By Peggy Hollinger

Pict Petroleum, the small exploration company, yesterday announced a 35 per cent drop in interim net profits from £2.92m to £1.97m because of the absence of currency gains following the devaluation of sterling last year.

Currency gains fell sharply from £1.38m to £85,000.

Mr Peter Everett, chairman, said the currency effect and net profits decline masked a strong underlying performance, with the operating return for the six months to December 31 77 per cent higher at £1.65m.

The return was achieved in spite of a marked weakening of oil prices from an average of \$18.76 per barrel to \$15.13.

Turnover rose by 57 per cent to £7.52m.

The increase was largely due to an early contribution from the Scott field in the North Sea, which came on stream in September. The company reached record production levels of 737,400 barrels of oil equivalent, of which some 220,847 had been produced by the Scott field.

Pict was determined to continue its exploration programme, and had budgeted about \$8m for projects this year.

The company also said it intended to pursue further acquisitions abroad. Pict ended the first half with cash of £15.5m against £14.8m last year. Net debt was £13.5m, equal to 29 per cent of shareholders' funds.

As in previous years, there is no dividend. Earnings per share fell from 5.86p to 3.62p.

## Lloyds Chemists advances 16%

By Peggy Hollinger

Lloyds Chemists, the UK's second largest pharmaceuticals retailer, yesterday promised to step up dividend growth as it announced a 16 per cent increase in interim pre-tax profits and a 35 per cent rise in the first half payout.

The dividend, up from 2p to 2.7p, is covered more than five times by fully diluted earnings of 13.96p (13.4p). Mr Allen Lloyd, chairman, said the group intended to increase steadily the payment until the cover approached the stores sector average of more than twice.

The decision reflected the board's confidence in the

group's less acquisitive future, he said. It had been two years since the last large acquisition - that of Macarthy in 1992 - but Lloyds "continued to show good rates of growth".

Pre-tax profits for the six months to December 31 were £28.2m (£22.9m) on sales up by 17 per cent to £460m (£394.7m).

The largest sales advance came from the pharmaceuticals division, which increased net external sales by 44 per cent to £123.2m (£85.7m). This included an 80 per cent improvement in external sales to £24m at Barclay Pharmaceuticals, the wholesaler.

The flu season, which was earlier than expected, helped boost sales in the retail divi-

sion from £284.5m to £307.7m. The company said like-for-like sales were 9 per cent higher in the chemists shops, 1 per cent up in the Superstore Drugstores, and 3 per cent ahead in the Holland & Barrett health food chain.

The veterinary division increased sales by 19 per cent to £28.1m (£24.5m).

Gearing fell from 31 per cent to 25 per cent. The group announced a new seven-year loan facility of £100m (£88m) at 7 per cent interest.

### COMMENT

Lloyds is stressing its organic growth record in order to prove that the lingering doubts about accounting practices and

quality of earnings are unfounded. While some concerns may have been allayed, others are beginning to appear. These include the potential for the wholesaling division, which is suffering some margin erosion in a competitive environment. There is also the question of a replacement for Mr Dick Steel, the departing finance director. These issues may well explain why the company continues to trade at a substantial discount to the stores sector. Forecasts are for between 25m and £57m, putting the shares on a prospective p/e of about 12. Their attraction may be enhanced by an improved yield of 3.7 per cent.

### NEWS DIGEST

## Cupid shares down on warning

Shares in Cupid tumbled 27 per cent to 16p yesterday as the USM-quoted bridal wear, formal wear and nursery products group revealed that it would be "substantially loss-making in the current financial period."

Revealing deepened interim losses of \$456,000 (£168,000) in January, the group suggested it would return to profitability in the year to March 31 and announced the launch of a restructuring of the group, now ongoing.

Mr Richard Shaw, chief executive, has been temporarily requested by the board to take no executive actions and he is presently in discussions with the company.

## MAI offer unconditional

MAI, the television and financial services group, said yesterday that its £282m offer for Anglia Television had been declared unconditional in all respects, subject only to the admission to the Official List of the new MAI convertible preference shares becoming effective today.

At 3pm on March 4, valid acceptances had been received in respect of 43m Anglia ordinary shares (96.97 per cent).

Notice to the Holders of the outstanding 8% Convertible Bonds due 1998 (the "Bonds") of Merloni Overseas Limited (the "Issuer")

Unconditionally and irrevocably guaranteed by, and convertible into Ordinary Shares and Savings Shares of Merloni Elettrodomestici S.p.A. (the "Guarantor")

NOTICE IS HEREBY GIVEN to the holders of the Bonds that in accordance with Condition 8(a) of the Bonds the right of subscription for Ordinary Shares and Savings Shares of the Guarantor will, as a result of the decision of the Issuer to redeem the Bonds on April 1, 1994, terminate at the close of business on March 24, 1994.

The holders of the Bonds are reminded that until March 24, 1994 they may exercise their right to convert all or any of the Bonds held by them into the Guarantor's Ordinary Shares and Savings Shares.

Each Bond of Lire 5,000,000 may be converted as to Lire 3,388,582 of such principal amount into Ordinary Shares of the Guarantor at a conversion price of Lire 3,688 per Ordinary Share and Lire 1,811,418 of such principal amount into Savings Shares of the Guarantor at a conversion price of Lire 1,750 per Savings Share, in accordance with Condition 8(a) of the Bonds.

To exercise such right the holders of the outstanding Bonds must deliver such Bonds at the specified office of a Conversion Agent (listed below), accompanied by a duly signed and completed notice of subscription in the form obtainable from such Conversion Agent, on or prior to March 24, 1994. Such notice must be duly completed and deposited as aforesaid will be irrevocable without the consent of the Issuer and the Guarantor.

Each Bond delivered for redemption and subscription (conversion) should be delivered with all unexpired Coupons appertaining thereto, failing which the Paying Agent will require payment of an amount equal to the face value of any such missing Coupons.

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PAYING AND CONVERSION AGENTS  
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Pursuant to Paragraph (d) of the Terms and Conditions of the Notes notice is hereby given that the period in respect of Coupons No. 37 will run from March 23, 1994 to April 25, 1994. A further notice will be published advising Rate of Interest and Coupon amount payable.

March 8, 1994, London  
by: Citicorp, N.A. (Issuer Services), Agent Bank

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# HSBC Investment Banking

## Results for 1993

*The HSBC Group creates a new investment banking force*

	1993 £m	1992 £m
Profit before tax	253.0	1.6 loss
Merchant Banking	152.7	26.4 loss
Securities	67.9	7.6
Asset Management	32.4	17.2
Attributable profit	191.6	6.8
Capital Resources	848.2	764.9
Total Assets	13,425.8	12,181.4

- Pre-tax profit increased by £254.6m
- Attributable profit increased by £184.8m
- 31% return on capital resources

"The HSBC Investment Banking Group had an outstanding 1993, reflecting increased business flows between group companies against a background of favourable market conditions. Our unique strengths in South-East Asia were particularly important for both primary and secondary market activities."

Bernard Asher

Bernard Asher, Chairman

The HSBC Investment Banking Group, formed in 1993, co-ordinates the merchant banking activities of Wardley in the Asia-Pacific region and Samuel Montagu in Europe and the Americas, with international equity and equity-related securities distribution through James Capel and fund management through HSBC Asset Management.

These businesses continued to operate under their well-established names but work together to deliver investment banking products and services around the world. They operate in 37 countries and employ 4,100 staff. Market leadership has been consolidated in a number of the group's product lines: export and project finance, private client services, securities distribution and new issue business in Asia.

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# BANK OF TOKYO GROUP

THE BANK OF TOKYO GROUP continues to provide our clients with a range of high quality services in the field of Corporate Finance on a global basis. Our goal is to gain the confidence of our clients and to build up and maintain a lasting business partnership. Integrity in all our transactions is our highest priority.

Shown below are examples of transactions the Bank of Tokyo Group has carried out on behalf of clients. For more detailed information about our range of services, please contact any of the Bank of Tokyo Group offices listed below.

## GLOBAL CORPORATE FINANCE IN 1993

### M & A AND STRATEGIC ALLIANCE

<p>NISSAN EUROPE NV. has increased its shareholding in NISSAN MOTOR IBERICA S.A. through a take-over bid</p> <p>The undersigned acted as Financial Advisor to Nissan Europe NV.</p> <p>Tokyo Sociedad de Valores y Bolsa (España) S.A.</p>	<p>ACSYS INC. has acquired JWP BUSINSSLAND JAPAN CO., LTD. (Subsidiary of JWP INC.)</p> <p>The undersigned acted as Financial Advisors to JWP Inc.</p> <p>The Bank of Tokyo, Ltd. The Bank of Tokyo Trust Company</p>	<p>MITSUBISHI CORP. and SODEKHO have acquired a minority interest in SOGO SHOKUHIN K.K.</p> <p>The undersigned acted as Financial Advisor to Sogo Shokuhin K.K.</p> <p>The Bank of Tokyo, Ltd.</p>	<p>YAMATO SCALE CO., LTD. has acquired METRO EQUIPMENT CORP.</p> <p>The undersigned acted as Financial Advisor to Yamato Scale Co., Ltd.</p> <p>The Bank of Tokyo, Ltd.</p>	
<p>TOSHIBA CORP. has entered into an alliance with PICTURETEL</p> <p>The undersigned acted as Financial Advisors to PictureTel</p> <p>The Bank of Tokyo, Ltd. The Bank of Tokyo Trust Company</p>	<p>TATSUMIYA KOGYO CO., LTD. has increased its shareholding in AUTOMOTIVE DISTRIBUTORS LTD.</p> <p>The undersigned acted as Financial Advisor to Tatsumiya Kogyo Co., Ltd.</p> <p>The Bank of Tokyo, Ltd.</p>	<p>VOLVO CARS JAPAN CORP. and IWATAYA have entered into dealership</p> <p>The undersigned acted as Financial Advisor to Volvo Cars Japan Corp.</p> <p>The Bank of Tokyo, Ltd.</p>	<p>NIPPON SANJO CORP. has acquired exclusive sales right from TOP OF THE LINE SPORTSKITE</p> <p>The undersigned acted as Financial Advisor to Nippon Sanso Corp.</p> <p>The Bank of Tokyo, Ltd.</p>	<p>PONY CANYON INC., GOLD MOUNTAIN ENTERTAINMENT and CHERRY LANE MUSIC INC. have formed a joint venture</p> <p>The undersigned acted as Financial Advisor to Pony Canyon Inc.</p> <p>The Bank of Tokyo, Ltd.</p>

### INTERNATIONAL LEASE

<p>CANADIAN HELICOPTER CORPORATION</p> <p>Secured Note Financing</p> <p>Arranged by BOT Financial Corporation</p>	<p>BURLINGTON NORTHERN RAILROAD COMPANY</p> <p>U.S. Leveraged Equipment Lease of Double Stack Container Cars</p> <p>Equity arranged by BOT Financial Corporation</p>	<p>AMERICAN HONDA MOTOR CO., INC. (Subsidiary of HONDA MOTOR CO., LTD.)</p> <p>U.S. Equipment Lease</p> <p>Arranged by BOT Financial Corporation</p>	<p>FUJITSU FULCRUM TELECOMMUNICATIONS LTD. (Subsidiary of FUJITSU LIMITED)</p> <p>U.K. Lease of Land and Buildings</p> <p>Arranged by Bank of Tokyo International Limited</p>	<p>JAPAN AIRLINES COMPANY, LTD.</p> <p>Boeing 747-400 Aircraft Japanese Leveraged Lease</p> <p>Arranged by BOT Lease Co., Ltd. and other leasing companies</p>	<p>MALAYSIAN AIRLINE SYSTEM BERHAD</p> <p>Two Boeing 737-400 Aircraft Japanese Leveraged Lease</p> <p>Arranged by BOT International (H.K.) Limited and other financial companies</p>
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### STRUCTURED AND PROJECT FINANCING

<p>CAMDEN COGEN, LIMITED PARTNERSHIP</p> <p>Gas-fired co-generation facility</p> <p>U.S.A.</p> <p>The Bank of Tokyo New York Group acted as Senior Tranche Agent</p>	<p>BCH ENERGY LIMITED PARTNERSHIP</p> <p>Resource recovery and waste-to-energy facilities</p> <p>U.S.A.</p> <p>The Bank of Tokyo New York Group acted as Administrative Agent, Arranger and Account Agent</p>	<p>PAGBILAO POWER PROJECT</p> <p>Philippines</p> <p>Hopewell Holding Limited</p> <p>The Bank of Tokyo, Ltd. acted as Co-Financial Advisor and Arranger of the JEXIM Loan</p>	<p>COMPANIA CONTRACTUAL MINERA CANDELARIA</p> <p>Chile</p> <p>Phelps Dodge Corporation Sumitomo Metal Mining Co., Ltd. Sumitomo Corporation</p> <p>The Bank of Tokyo, Ltd. acted as Intercreditor Agent The Bank of Tokyo New York Group acted as Trustee</p>	<p>MALAYSIA LNG 1&amp;2 PROJECT</p> <p>Malaysia</p> <p>PETRONAS/Shell Mitsubishi Corp./Sarawak State</p> <p>The Bank of Tokyo, Ltd. acted as Arranger</p>	<p>COLVER POWER PROJECT</p> <p>Electrical generating station</p> <p>U.S.A.</p> <p>Union Bank acted as Managing Agent</p>
<p>OK TEDI COPPER/GOLD/SILVER MINE</p> <p>Papua New Guinea</p> <p>BHP Papua New Guinea</p> <p>The Bank of Tokyo, Ltd. acted as Manager</p>	<p>CEDAR RIVER PAPER COMPANY</p> <p>Recycled corrugating medium manufacturing plant</p> <p>U.S.A.</p> <p>The Bank of Tokyo New York Group acted as Co-Agent</p>	<p>HYUNDAI LNG VESSEL</p> <p>Republic of Korea</p> <p>Hyundai Merchant Marine Co., Ltd.</p> <p>BOT International (H.K.) Limited acted as Arranger</p>	<p>SHEFFIELD HEAT AND POWER PROJECT REFINANCE</p> <p>Regional heating system of the city of Sheffield</p> <p>U.K.</p> <p>Bank of Tokyo International Limited acted as Sole Lender</p>	<p>WESTERN HARBOUR TUNNEL</p> <p>Hong Kong</p> <p>Cross Harbour Tunnel Company CITIC</p> <p>The Bank of Tokyo, Ltd. acted as Lead Manager</p>	<p>NORTH GOONYELLA COAL PROJECT</p> <p>Australia</p> <p>Sumitomo Corporation White Mining Limited</p> <p>The Bank of Tokyo, Ltd. acted as Arranger</p>
<p>SITHR/INDEPENDENCE POWER PARTNERS, L.P.</p> <p>Gas-fired co-generation facility</p> <p>U.S.A.</p> <p>Union Bank acted as Agent</p>	<p>SUPERIOR RECYCLED FIBER CORPORATION (A subsidiary of MINNESOTA POWER)</p> <p>Project financing of a recycled pulp facility</p> <p>Arranged by BOT Financial Corporation</p>	<p>UNITED WHOLESALE, INC.</p> <p>Secured revolving line of credit</p> <p>Arranged and Agented by BOT Financial Corporation</p>	<p>BAKER &amp; TAYLOR</p> <p>Information and entertainment services</p> <p>Revolving credit facility</p> <p>Arranged by BOT Financial Corporation</p>	<p>OAKWOOD HOMES CORPORATION</p> <p>Installment sales contract securitization</p> <p>Arranged by BOT Financial Corporation</p>	<p>UB VEHICLE TRUST NO. 91</p> <p>Sale of debt participation in leveraged lease financings of automobiles and light trucks</p> <p>Arranged by BOT Financial Services, Inc.</p>

### FINANCIAL ADVISORY SERVICES

<p>PERWAJA STEEL Steel Making Shop and Section Mill Project</p> <p>Malaysia</p> <p>Tomen Corporation</p> <p>The Bank of Tokyo, Ltd. acted as Financial Advisor</p>	<p>LEYTE GEOTHERMAL POWER PLANT PROJECT</p> <p>Philippines</p> <p>Kanematsu Corporation</p> <p>The Bank of Tokyo, Ltd. acted as Financial Advisor</p>	<p>U.S. PREFERRED STOCK issued by DAINICHISEIKA, INC. (Subsidiary of DAINICHISEIKA COLOR &amp; CHEMICALS MFG. CO., LTD.)</p> <p>The Bank of Tokyo, Ltd. The Bank of Tokyo Trust Company acted as Financial Advisors to DAINICHISEIKA COLOR &amp; CHEMICALS MFG. CO., LTD.</p>	<p>ESTABLISHMENT of GERMAN JOINT VENTURE of SVENSKA (Subsidiary of CHIDORIYA)</p> <p>The Bank of Tokyo, Ltd. acted as Financial Advisor</p>
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## COMPANY NEWS: UK

## Disposal profits boost outcome by £1.1m British Polythene rises 28%

By David Wighton

British Polythene Industries, Europe's largest polythene film producer, increased its profits by 28 per cent to £15.4m in 1993 helped by a £20.8m rights issue which reduced interest charges and £1.1m of disposal profits.

Underlying earnings on a fully diluted basis edged up from 24.75p to 25p.

Turnover rose by a fifth to £212m and Mr Cameron McLatchie, chairman, predicted it would top £250m this year. "Our business is growing, and with considerable success, in difficult conditions," he said.

Half of group sales go to British food retailers either as plastic bags or transit packaging, and British Polythene's shares have underperformed

on worries about a potential squeeze on margins from the hard-pressed supermarkets.

Operating margins slipped from 8.19 per cent to 7.94 per cent, with profits from continuing operations up only 2 per cent to £14.8m on turnover 9 per cent higher at £193m.

Mr McLatchie said that excluding £500,000 of reorganisation costs there was an improvement in margins between the two halves. But this was partly because of a reduction in raw materials costs.

"Retailers are being very difficult, but they have been difficult for a long time," he said.

Mr McLatchie said that some retailers had defected after the £8.4m acquisition of a rival

plastic bag manufacturer from Sonoco a year ago. "They are not comfortable with sole suppliers." But he stressed that the loss of customers had been expected. "We have kept half of the real business and moved the spare equipment to China."

British Polythene has formed a joint venture in China which will start producing small, thin retail bags towards the end of the year.

The company will offer retailers the choice of UK or Chinese-made bags, but Mr McLatchie warned: "If retailers end up buying everything from China there will be no customers left for their shops."

The final dividend rises to 7.75p for a total up 15 per cent to 11.5p.

## COMMENT

The largest supplier in a mature commodity market, British Polythene has shown it can generate good profits growth by hovering up its smaller, often struggling, rivals. This cannot go on for ever - though with 25 per cent of the market there appears enough scope for the next few years - and Mr McLatchie is not optimistic that the frustrating search for good acquisitions in Europe will bear fruit. But the more immediate worry is the threat to margins from cost-cutting supermarkets. The shares have picked up over the past month, and on forecasts of £17.5m are now trading on 16 times forward earnings. Unlike the trend in margins is clearer that looks high enough.

## Bristol & West expands to £41.3m

By Alison Smith

Bristol & West building society, the UK's tenth largest, yesterday announced pre-tax profits of £41.3m for the year to end-December 1993, a rise of 5.6 per cent on the £38.1m for 1992.

It also restated its 1992 profits as £14m in the light of new accounting standards which affect how the sale of some freehold property is presented.

The society's provisions for bad and doubtful debts fell by 14.6 per cent, to £63.3m against £74.1m.

Mr John Burke, chief executive, said that the provisions charge underlined the fact that until a relatively recent change in approach, the society had sought to reach arrangements with borrowers in arrears rather than moving more quickly to repossession.

The society said that the volume of residential mortgage arrears fell by 45 per cent to £71m.

Mortgage advances rose by 11.6 per cent to £1.1bn (£997m), while net receipts of retail savings more than doubled to £230m (£101m).

B&W's wholesale funding fell to 25.1 per cent of shares and deposits, against 27.8 per cent in 1992. Total assets rose to £8.14bn (£7.73bn).

Mr Burke said that the society was pressing ahead with the sale of 46 branches in estate agent chains Hamptons and Bristol & West Property Services. The remaining branches - about 70 in Hamptons and about 30 in BWPS - will be retained.

The group's cost/income ratio was 55 per cent, down slightly from 57 per cent in 1992. The society's cost income ratio was 44 per cent (45 per cent).

## Candover Investments optimistic on prospects

By Paul Taylor

Candover Investments, an investment trust specialising in management buy-outs, increased net assets per share by 16 per cent in 1993 but pre-tax profits fell by 19 per cent to £3.2m.

Mr Roger Brooke, chairman, said that although 1993 had been "a relatively quiet year, both for investments and realisations" there had been several encouraging new developments towards the year-end "which should herald a period of greater activity."

In particular, he said, the profits of many of Candover's investee companies had benefited sufficiently from the improved economic environment to enable them to plan a listing for their shares this year or next.

About eight portfolio companies are currently planning floatations which, if completed successfully, could lead to a strong uplift in Candover's net asset value.

Net assets rose by 16 per cent to £89.4m (£59.8m) while net assets per share rose to



Roger Brooke: expects a period of greater activity

310p compared with 267p at the end of 1992 - a smaller increase than the 23 per cent gain in the FT-SE-A All-Share Index.

However, net assets have shown compound growth of 31 per cent in the nine years since Candover was listed. The FT-SE-A All-Share Index has risen 12 per cent a year over the same period.

The decline in pre-tax prof-

its, from £4.1m in 1992, was due partly to the impact of lower interest rates, which reduced the return on Candover's cash balances. The company had cash of £22.6m at the year end. In addition the group earned fewer financing fees.

In a quiet year for transactions Candover, together with its funds under management, invested in two larger buy-outs - Gardner Merchant and Economic Insurance - three smaller buy-outs and a number of follow-up investments in portfolio companies.

The main realisation during the year was the flotation of Motor World in February 1993. Since the year-end Midland Independent Newspapers has also applied for listing.

Fully diluted earnings per share fell by 34.4 per cent to 10.33p (13.67p) but, because of the "good prospects for further growth of both assets and profits," the final dividend is being increased by 8.5 per cent to 7.65p (6.5p) making a total of 11p (10.25p).

The shares closed up 2p at 337p.

## Gt Portland pays £5.9m for freehold

Great Portland Estates, the property investment and development group, has acquired the freehold of Guild House, Swindon, for £5.9m cash.

The 53,000 sq ft office building, developed in 1980, is the headquarters of Book Club Associates, the Reed International/Doubleday joint venture.

The current lease runs until 2005, at an annual rent of £570,000, subject to review in 1995 and 2000.

Mr Patrick Hall, deputy managing director, said: "Since the commencement of our rights issue in June last year, we have now invested a total of more than £82m in new acquisitions, which in a full year should add more than £7.4m to rental income."

## Perkins Foods down sharply

By Maggie Urry

Oversupply in the pizza market, a move to a new factory and losses in canned mushrooms contributed to a £2.5m fall in 1993 pre-tax profits to £19.6m at Perkins Foods before exceptional costs of £3.9m.

As promised, the final dividend is being held at 2.7p to give a 4.45p (4.4p) total. The shares rose 1.4p to 76.5p.

Perkins grew rapidly through acquisition in the late 1980s. Mr Howard Phillips, chief executive, said the emphasis now was on cost reduction and productivity. The group had won some significant new supermarket contracts.

Mr Ian Blackburn, finance director, said the group was protected from the competition between UK supermarket groups as only about a quarter of its sales were in the UK, with the Netherlands accounting for more than half.

Group turnover rose 8 per cent to £382.1m, with volume growth of 6 per cent in the group's manufacturing activities. Operating margins fell from 7.1 per cent to 5.9 per cent.

In the frozen food division, which now includes mushrooms, operating profits fell from £15.8m to £13.8m. The division suffered the problems in the pizza market, but also had the benefit of a £1.2m insurance gain in 1992 from a fire at a pizza plant. Perkins has closed Sunbird,

its loss-making frozen vegetable business, treated as a discontinued business.

Chilled foods profits fell from £4.8m to £3.4m, largely because of extra costs, of up to £1m, at Baxter meat products when production was moved. Fresh produce recovered ground lost in 1992 when bumper crops hit prices. Profits there were up from £5.7m to £7.8m.

Interest charges took £2.2m (£1.7m). Earnings per share were 4.9p (3.5p) after exceptional.

## COMMENT

If 1992 was billed as a year of consolidation for Perkins, 1993 was one of rationalisation. The acquisition record is now shown up to be mixed at best, with companies bought now being closed. With eat-outs coming to an end some vendors are heading for the door, not that Perkins is sorry to see them go as new management is being brought in. Another £1.7m of deferred consideration could be due in 1994, of which perhaps half will be taken in shares. Then in 1997 redemption of the first D-Mark convertibles loom, although Perkins now has the facilities in place to cope. Interest cover may look good at 9 times, but that ignores preference dividends of around 23.7m after tax. After two down years, a yield of 7.4 per cent says more about the shares than a prospective yield of 9.4 on tentative forecasts of £20m for 1994.

Chilled foods profits fell from £4.8m to £3.4m, largely because of extra costs, of up to £1m, at Baxter meat products when production was moved. Fresh produce recovered ground lost in 1992 when bumper crops hit prices. Profits there were up from £5.7m to £7.8m.

Interest charges took £2.2m (£1.7m). Earnings per share were 4.9p (3.5p) after exceptional.

## INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES					■ JAPAN					■ GERMANY					■ FRANCE					■ ITALY					■ UNITED KINGDOM					
	Consumer prices	Producer prices	Unit labour costs	Real exchange rate		Consumer prices	Producer prices	Unit labour costs	Real exchange rate		Consumer prices	Producer prices	Unit labour costs	Real exchange rate		Consumer prices	Producer prices	Unit labour costs	Real exchange rate		Consumer prices	Producer prices	Unit labour costs	Real exchange rate		Consumer prices	Producer prices	Unit labour costs	Real exchange rate	
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
1986	101.9	98.6	102.2	98.4	102.0	100.8	95.3	101.4	103.4	118.5	99.9	97.5	103.8	103.8	107.5	102.5	97.2	104.5	101.5	103.4	101.3	103.4	101.4	107.7	104.5	94.2	1986			
1987	105.6	100.7	103.8	98.7	78.2	101.2	92.5	103.1	100.6	123.0	100.1	95.1	108.0	107.1	111.0	105.9	97.8	107.8	103.0	104.8	111.0	103.2	111.8	105.5	102.0	107.7	104.8	94.8	1987	
1988	109.9	103.2	106.9	99.1	71.1	102.2	92.8	107.8	98.2	131.1	101.4	98.2	113.0	108.9	110.1	108.8	102.8	111.1	105.8	102.2	116.5	106.8	118.4	108.7	100.2	113.0	108.7	128.2	108.9	102.4
1989	115.2	108.5	110.0	101.1	74.9	104.9	94.2	114.0	95.1	123.8	104.2	99.3	117.3	108.0	107.9	112.8	108.4	115.4	105.3	99.8	124.2	113.1	125.6	112.3	103.6	121.8	113.9	137.2	113.6	101.1
1990	121.5	113.8	113.8	104.3	73.4	108.2	95.7	120.1	98.3	128.5	107.0	101.0	123.8	110.3	110.9	116.5	107.1	120.8	108.5	103.6	131.8	117.8	134.7	118.9	106.2	133.3	121.0	102.4	1990	
1991	126.6	116.3	117.3	107.8	74.1	111.8	98.8	124.2	101.8	114.6	110.7	103.4	131.8	115.0	108.4	120.2	108.9	125.8	113.8	101.7	140.3	121.7	147.9	131.3	104.6	141.2	127.5	162.4	151.7	108.1
1992	130.4	117.7	120.2	108.1	74.0	113.9	95.8	125.6	111.1	116.1	115.1	104.8	138.6	121.5	111.0	123.1	104.0	130.3	116.8	105.2	147.7	124.0	155.9	136.8	101.4	146.4	131.5	171.3	133.8	103.0
1993	134.3	119.2	123.4	105.4	76.4	118.3	94.3	125.8	113.8	133.8	119.8	104.8	133.7	112.5	112.5	125.6	101.1	133.7	116.8	107.9	153.9	128.7	168.7	148.7	136.7	160.9	132.3	95.2	1993	
1st qtr.1993	3.2	2.0	2.8	-1.9	77.5	1.2	-1.1	-0.5	7.0	124.2	4.3	0.5	n.a.	9.7	113.9	2.1	-2.3	n.a.	4.4	108.4	4.3	3.1	2.8	4.4	88.4	1.8	3.6	4.7	-2.7	1st qtr.1993
2nd qtr.1993	3.2	2.0	2.5	-2.3	75.8	1.0	-1.4	0.7	5.3	132.9	4.2	-0.2	n.a.	5.4	111.9	2.0	-3.4	n.a.	108.2	4.1	3.9	3.1	2.8	88.0	1.3	4.0	5.0	-1.8	2nd qtr.1993	
3rd qtr.1993	2.8	0.7	2.5	-2.7	76.1	1.8	-1.8	0.4	4.7	140.5	4.2	-0.3	n.a.	1.8	112.0	2.2	-3.4	n.a.	106.0	4.3	4.3	4.1	2.8	87.5	1.6	4.3	4.4	-0.6	3rd qtr.1993	
4th qtr.1993	2.7	0.3	2.5	-2.9	75.5	1.2	-2.1	0.0	4.7	137.3	3.7	-0.2	n.a.	1.8	112.3	2.1	-2.2	n.a.	107.0	4.1	3.9	4.1	2.8	85.1	1.6	3.9	4.0	0.8	4th qtr.1993	
March 1993	3.1	2.0	2.5	-2.0	77.0	1.2	-1.2	1.0	3.6	127.7	4.2	0.3	0.2	113.5	2.2	n.a.	3.4	n.a.	106.6	4.2	3.4	2.7	n.a.	84.5	1.9	3.7	4.2	-2.6	1993 March	
April	3.2	2.5	2.5	-2.1	75.8	0.9	-1.3	2.0	5.4	128.9	4.3	0.1	7.5	113.1	2.1	n.a.	n.a.	n.a.	108.8	4.2	3.7	2.6	n.a.	85.1	1.3	4.0	5.3	-1.2	April	
May	3.2	2.1	2.5	-2.1	75.5	1.1	-1.5	2.8	6.1	132.0	4.2	-0.3	5.9	111.9	2.0	n.a.	n.a.	n.a.	109.3	4.0	3.9	2.6	n.a.	89.2	1.3	4.0	4.8	-4.0	May	
June	3.0	1.3	2.5	-2.6	75.8	1.0	-1.5	-0.9	4.5	136.8	4.2	-0.4	3.4	110.8	1.9	n.a.	2.6	n.a.	108.5	4.2	4.1	4.1	n.a.	89.7	1.2	4.0	4.8	-0.2	June	
July	2.8	1.3	2.5	-2.5	77.1	1.8	-1.7	-1.2	5.4	138.5	4.3	-0.2	3.1	110.3	2.1	n.a.	n.a.	n.a.	108.2	4.4	4.2	4.1	n.a.	88.3	1.4	4.2	5.0	-1.0	July	
August	2.8	0.5	2.5	-2.7	75.9	1.6	-1.7	-0.2	5.4	138.5	4.3	-0.2	3.1	110.3	2.1	n.a.	n.a.	n.a.	108.2	4.4	4.2	4.1	n.a.	88.3	1.4	4.2	5.0	-1.0	August	
September	2.7	0.4	2.5	-2.8	75.3	2.0	-1.8	2.3	3.4	143.7	4.2	-0.3	0.2	111.9	2.2	n.a.	n.a.	n.a.	104.9	4.4	4.4	4.1	n.a.	87.5	1.7	4.3	3.6	-0.9	September	
October	2.8	0.2	2.5	-2.9	75.8	1.3	-2.0	1.5	5.4	139.2	4.0	-0.5	1.4	113.7	2.3	n.a.	n.a.	n.a.	106.9	4.2	4.3	4.2	n.a.	88.6	1.8	4.3	3.5	0.3	October	
November	2.7	0.3	2.3	-2.2	76.7	1.2	-2.1	0.8	6.1	138.3	3.9	-0.3	-0.4	115.8	2.2	n.a.	n.a.	n.a.	106.7	4.3	4.1	3.9	n.a.	86.1	1.4	4.0	3.8	0.4	November	
December	2.8	0.2	3.3	-3.7	77.2	1.2	-2.1	0.8	6.1	138.3	3.9	-0.3	-0.4	115.8	2.2	n.a.	n.a.	n.a.	106.4	4.2	4.3	3.9	n.a.	85.0	1.4	3.8	4.0	0.7	December	
January 1994	2.5	0.2	3.3	-3.7	77.2	1.3	-2.2	-0.8	4.3	138.5	3.6	-0.2	-0.2	112.1	2.1	n.a.	n.a.	n.a.	107.9	4.0	4.0	3.7	n.a.	84.2	1.9	4.0	4.3	1.2	January 1994	
February	2.5	0.2	3.3	-3.7	77.2	1.4	-2.2	-0.7	4.3	138.5	3.6	-0.2	-0.2	112.1	2.1	n.a.	n.a.	n.a.	107.5	4.2	4.0	3.7	n.a.	84.5	1.9	4.0	4.3	1.2	February	

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA

# Cautionary tale for investors

Peter Marsh looks at Porton International's disappointing record

Porton International, the biotechnology company with a disappointing record which provides a cautionary tale for potential investors in the sector, is close to a decision to put itself up for sale.

The privately owned company has engaged merchant bankers Kleinwort Benson to examine whether other pharmaceutical businesses might be interested in buying it.

A stock market flotation is another option likely to be considered.

The aim of the initiative is to provide a possible escape route for institutional investors which put £76m into Porton during the 1980s on the basis of profits projections which the company has failed to deliver.

In its last full year in 1992 Porton turned in a pre-tax profit of £3m on sales of £49.1m.

Several of the investors have expressed disappointment that the company failed to live up to early expectations. But following management changes at Porton the investors now say they are relatively confident about its immediate future.

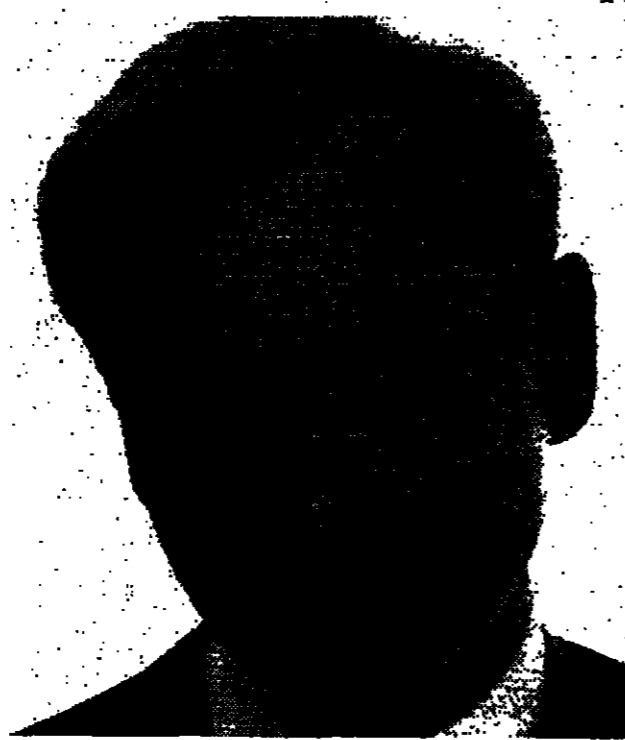
One investor said: "There has been a sea change in the way the company is being run. There is a much greater willingness to tell shareholders what is happening and it's got much better credibility with customers."

Another investor said: "There's no doubt that collectively a lot of institutions made a mistake in backing this company in the way we did but we are generally more hopeful now."

Porton was set up in 1982 by Mr Wensley Haydon-Baillie, its former chairman. He stepped down from executive responsibilities nearly two years ago after a series of discussions with shareholders and other executives.

Mr Haydon-Baillie's replacement as chairman is Lord Chilver, who is chairman of English China Clays and is the former head of the Cranfield Institute of Technology.

Mr Haydon-Baillie, who still owns about a third of the company, raised the finance for Porton from several big institutional investors including Legg and General, Sun Alliance, Lloyds Bank and the per-



Tony Gover: the company is close to putting itself up for sale after failing to meet its drug development and profit targets

sion funds of British Telecom, Imperial Chemical Industries and the Post Office.

He raised eyebrows by selling some of his shares in Porton to other investors in 1986 for 25p. In 1987 and 1988 he obtained dividend payments from the company totalling some £1.1m, in addition to drawing a salary of about £95,000 a year.

Porton was considered unusual among biotechnology companies in the UK and US for the large amount of cash which it raised early in its life and the fact that the founder was able to make a lot of money out of the company before the company had proved itself.

The company placed much store in its early financial projections on an anti-herpes medication which took longer than expected to develop and then four years ago failed to prove effective in clinical trials.

Partly as a result of this setback, the company failed by a long chalk to achieve the profit of £140.8m in 1990 which investors had been told in a planning document issued in 1986 might be achievable.

The company became a byword for spending large sums of money on its opulent office in Mayfair and also on salaries.

Mr John Burke, the company's former chief executive who left last August, was paid £450,000 in 1989, putting him among the top 50 UK manufacturing executives that year in terms of salary.

As part of his settlement with the company on his departure Mr Burke received a payment of £550,000 which will be charged to the accounts in the second half of last year.

Mr Haydon-Baillie also caused a stir by employing a personal security adviser, a former member of the Special Air Service, to ward off inquiries from journalists.

This dislike for publicity meant that several shareholders in the mid 1980s accused the company of excessive secrecy.

They said this made it hard for them to find out details of the company's progress.

Mr Tony Gover, a long-time

business associate of Mr Haydon-Baillie who helped him set up Porton and is the company's vice chairman, says the company is trying to put such problems behind it and adopt a more conventional management style. "We are in a different era now," he says.

Mr Alistair Stokes, brought in as chief operating officer in 1992 from Glaxo, the UK pharmaceuticals group, says: "We may not have such a big future as we thought at one time, but it's still a bright future."

One of the changes is that the company has established quarterly meetings with its shareholders in London and Edinburgh to keep them informed.

As for its products, rather than emphasising the development of new medicines, the company is concentrating on cranking up sales of its portfolio of drugs mainly aimed at hospital use for treating relatively rare conditions.

These include Dysport, a medicine used to treat neuromuscular conditions, and Erwinase for leukaemia.

The company also makes a range of vaccines, for use mainly in the defence industry for protection against certain kinds of chemical warfare agents, and has research agreements to exploit scientific advances at St George's Medical School in London and the Centre for Applied Microbiology and Research near Salisbury in Wiltshire.

Kleinwort Benson is due to finish its review this spring. Among the options likely to be considered for Porton are a merger with another drugs group or a flotation on the stock exchange.

One person close to the discussions said he would "be surprised" if a bigger pharmaceutical company failed to express some interest in bidding for the group.

A pharmaceutical analyst said: "As a small vertically integrated pharmaceuticals operation, with a range of facilities from research laboratories to tried and tested production plants, Porton has been quite successful."

"It's a different image to the one Porton was trying to project at one stage as a developer of world beating medicines, but it's probably more realistic."



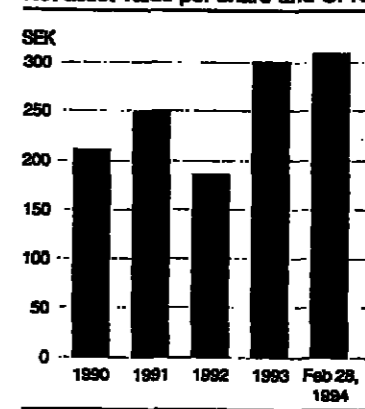
## Definitive accounts report for 1993

Consolidated earnings after financial items, but before sales of listed stocks, totaled SEK 366M (258). Including sales of listed stocks, consolidated earnings amounted to SEK 864M (229).

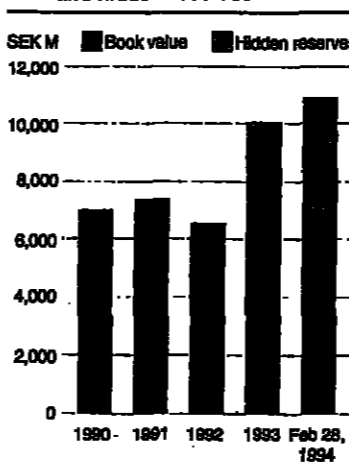
The value of the portfolio of listed stocks on December 31, 1993, was SEK 10,048M (6,513). Adjusted for purchases and sales, the value of the portfolio rose by 66 percent. The General Index rose by 54 percent.

On February 28, 1994, the value of the portfolio of listed stocks was SEK 10,907M, with hidden reserves totaling SEK 6,900M. Adjusted for net purchases of listed stocks, totaling SEK 369M, this represents an increase of 5 percent since year-end 1993, compared with a 10 percent increase in the General Index.

Net asset value per share and CPN



Market value of listed stock portfolio and hidden reserves



Inductus' earnings after financial items more than doubled, totaling SEK 283M (128).

PLM's earnings after financial items totaled SEK 82M (220), which corresponds with the full-year forecast presented in the 1993 interim report.

Net asset value at year-end was calculated at SEK 301 (186) per share and CPN. Net asset value as per February 28, 1994, is calculated at SEK 310 per share and CPN.

The Board of Directors proposes that the dividend be increased by SEK 1 to SEK 9 per share. CPN interest would thus amount to SEK 10.35 per CPN.

AB Industrivärden  
Box 5403, S-114 84 Stockholm, Sweden  
Phone +46 8 666 64 00, Fax +46 8 661 46 28

## Hartons losses reduced to £4.52m in depressed market conditions

Hartons Group, the Sheffield-based distributor of semi-finished plastics, yesterday reported a £1.73m reduction in pre-tax losses to £4.52m for the year to December 31.

Mr Charles Lenny-Conyngnam, chairman, said "considerable strides" had been made to resolve the main areas of concern at a time when markets remained depressed by the recession.

He said the 1993 deficit was mainly because of poor performances in France and Spain where attributable losses amounted to £3.57m and £906,000 respectively.

In the UK, trading activities produced higher profits. In the Benelux countries, a profit was achieved in the second half after a weak start to the year.

Turnover of continuing operations totalled £47m

(£51.3m), generating operating profits of £548,000 (£544,000). Losses per share were cut from 8.5p to 5.9p. The preference dividend has again been deferred.

Hartons will concentrate all of its resources on the development of its distribution businesses in the UK and the Benelux countries following the sale of its French subsidiary. Completion is expected this month. The group continued to gen-

erate cash and reduce borrowings throughout 1993. The sale of the French offshoot will improve the position further, leaving bank borrowings at about £7.5m against £13.1m at the beginning of 1993.

Noting a recent rise in the share price the directors said proposals were being considered which might or might not lead to a substantial acquisition.

### IN BRIEF

ANDAMAN RESOURCES is in talks with a view to acquiring a number of revenue-producing businesses. Consideration for the proposed transactions would be funded via a share placing.

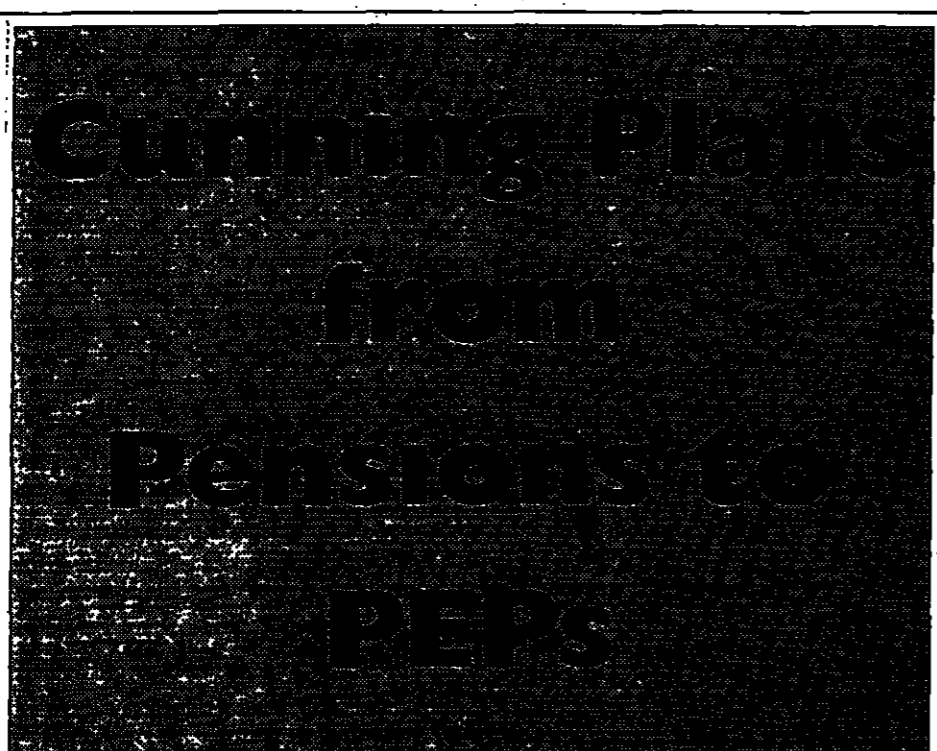
BABCOCK INTERNATIONAL has exchanged contracts for the sale and leaseback of Woodall-Duckham House. The property has been sold for £18m to Legal & General Assurance Society and has been leased back for 25 years.

BRADSTOCK GROUP has agreed terms for the acquisition of 918 non-voting A shares and 500 voting preference B shares - 51 per cent and 25 per cent of the issued capitals respectively - of its Bradstock Hamilton subsidiary.

CASTLE CAIRN Investment Trust has received shareholder approval to change its name to Farmington International Capital Trust.

CRT GROUP has created a new multi-media publishing division and recruited Mr Mark Edwards from Microsoft to head the operation. SHEFFIELD INSULATIONS has received valid acceptance in respect of 891m (94.4 per cent) ordinary shares of Freeman Group, for which it has made a recommended offer. The offer has been declared unconditional in all respects.

TELESEC, the electronic telecommunications company, has entered a joint venture with Tesla Stropkov of Slovakia for marketing and field support in eastern Europe of Telesec's products. Telesec has 67 per cent of the joint venture. TIBBET & BRETTON subsidiary Silcock Express is in talks with Toleman Holdings regarding the acquisition of Toleman's vehicle distribution operations.



The March issue of Money Management gives you everything from Pensions to PEPs. We take an in-depth look at the results of personal pensions and S226 plans over the past 15 years. We highlight the winners and losers picking the top performers amongst unit linked and with profits plans. And a best buys recommendation identifies the companies which combine above average performance with below average charges. This survey is a must for anyone buying or selling personal pensions.

### PEP UPS AND DOWNS

Also in the March issue of Money Management we survey

PEPs and actual charges. We review the results of PEP plans after deductions of all charges. This survey is unique to Money Management and provides information you need now with PEP sales reaching new heights.

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Floating Rate Notes Due 1995

Interest Rate: 5.225% per annum

Interest Period: 7th March, 1994 to 7th June, 1994

Interest Amount per £5,000 Note due 7th June, 1994: £65.85

Interest Amount per £50,000 Note due 7th June, 1994: £658.49

Agent: Bank

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The Kingdom of Denmark  
US\$1,000,000,000  
Floating rate notes 1997  
The notes will bear interest at 3.70313% per annum from 8 March 1994 to 8 June 1994. Interest payable on 8 June 1994 will amount to US\$5.46 per US\$1,000, US\$54.66 per US\$10,000 and US\$546.36 per US\$100,000 note.  
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**INTERIM ANNOUNCEMENT**  
HIGHLIGHTS OF UNAUDITED CONSOLIDATED RESULTS FOR THE HALF-YEAR ENDED 31ST DECEMBER 1993

	1993 RM Million	1992 RM Million
TURNOVER	3,913.0	3,324.6
PROFIT BEFORE TAXATION	419.7	374.7
EARNINGS	203.9	170.9
EXTRAORDINARY PROFITS	19.1	1.7
	Sen	Sen
EARNINGS PER SHARE	13.0	10.9
DIVIDENDS PER SHARE - GROSS	3.5	3.5

Profit before tax for the six months to 31st December 1993 is 12% higher than that for the previous half-year. Higher profits were recorded by most of the divisions, particularly the Malaysia and Hong Kong regions.

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**Collateralized Floating Rate Notes**  
Series A due December 1997  
In accordance with the provisions of the Notes, notice is hereby given that for the three months interest period from March 8, 1994 to June 8, 1994 the Notes will carry an interest rate of 4.1875% per annum. The interest payable on the relevant payment date, June 8, 1994 will be U.S. \$1,070.14 per U.S. \$100,000 principal amount of Notes.  
By: The Chase Manhattan Bank, N.A.  
London, Agent Bank  
March 8, 1994

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## COMMODITIES AND AGRICULTURE

## Cominco in C\$145m plan to replace Trail smelter

By Bernard Simon in Toronto

Cominco, the Vancouver-based metals producer, will spend C\$145m to replace the lead smelter at Trail, British Columbia, which has failed to meet expectations since it was installed four years ago.

Cominco has abandoned the German technology, known as QSL, on which the troubled facility was based. Instead, it has turned to a process known as Kivcet, which is in use at a smelter in Kazakhstan.

The QSL technology was supplied by Lurgi, a subsidiary of Metallgesellschaft, the German metals and industrial group. Cominco has demanded

compensation for the failed technology. An official said negotiations with Lurgi were continuing.

Cominco also announced a C\$35m plan to expand zinc production at Trail, which is one of the world's largest metallurgical complexes. The two projects will increase Trail's annual lead smelting capacity from 100,000 to 120,000 tonnes and zinc capacity from 200,000 to 300,000 tonnes.

The Kivcet lead smelter, which is expected to be commissioned in 1996, will reduce lead emissions by 70-80 per cent and alleviate another pollution concern by consuming large stockpiles of residues.

The expansions have been delayed by wrangling between Cominco and the British Columbia authorities over indirect taxes and the ownership of two hydro-electric dams near Trail owned by Cominco.

As part of the decision to go ahead with the Trail expansion, the province will pay Cominco C\$1.5m for the rights to expand the dams' generating capacity. Cominco will retain a 15 per cent interest in income from the dams, starting once the lead and zinc expansion projects have been paid off.

The QSL smelter operated briefly after it was completed in late 1989, but has been idle since March 1990.

## EU offers hope to eastern Europe's farmers

Alison Maitland on the prospect of an end to subsidised competition from the west

The prospect that the European Union might stop subsidising its farm exports to eastern Europe will be welcomed by the hard-pressed agricultural industries of the former communist bloc.

EU export subsidies were strongly criticised at a conference in Budapest last week by speakers from Hungary, Poland and the Czech Republic, which are struggling to restructure their farms and food businesses as part of their drive towards EU membership.

The subsidies will come under the spotlight at a European Commission session later this month. It will examine how the Common Agricultural Policy and other EU systems can be modified to help eastern Europe progress towards the market economy and faster integration with the west.

Export aids, together with ad hoc EU trade barriers, were blamed for preventing east European producers from competing on world markets and for damaging the few remaining healthy sectors of agriculture in these countries.

"One of the main reasons for our present problems is that our export expectations of retrieving east European markets have not been fulfilled so far because we are regularly beaten in the competition on export subsidies, mainly by the exporters of the European Community," said Mr. Andrzej Zamojski, managing director of Terimpex, a leading Hungarian meat trading company.

Speakers at the Agra Europe conference - on agriculture, agribusiness and the food

industry in central and eastern Europe - gave graphic accounts of the plunge in production and farm employment that had followed the collapse of communism and the old Comecon trading system.

In Poland, a fall in real income and the freeing of agriculture and input prices has led to a halving in agricultural income compared with 1989. Poland is no longer a net exporter of meat, milk products and eggs and only fruit and vegetable exports have held steady.

The collapse of state farms, which exceptionally in Poland covered only about 20 per cent of arable land before the reforms, has put up the average wheat yield from 1 per cent to 9 per cent.

In Hungary, 20 per cent less land was sown to crops last year than in 1991 because of a lack of finance and the uncertainty surrounding land ownership and privatisation. Drought made things worse, causing a 40 per cent fall in the cereal harvest compared with the average for 1989-1990. The average wheat yield was 3 tonnes a hectare, the lowest for more than 20 years.

A drop in meat consumption and a rise in input costs have led to large-scale slaughtering and a sharp fall in livestock numbers. In Hungary, the once-important pig sector has declined to just over 5m animals compared with a peak of 10m in 1983. The number of cattle is less than half that of 20 years ago. In Poland, cattle numbers have dropped by 24 per cent and pigs by 15 per

cent in the past three years.

Rural employment has been battered. In Hungary, about 150,000 people had lost their jobs by September 1992, representing 14 per cent of employment in the food and agricultural sector, because so many state farms and food processing enterprises went bankrupt.

Mr. Ryszard Stejskal, European agriculture commissioner, said there were signs in some countries last year of a recovery in crop production, but the livestock sector was still in decline. None the less, those countries had the potential to be "significant exporters of food."

The EU had to help them by going beyond its recent association agreements with six central and east European countries and speeding up the opening of its markets.

The current review of the EU's Phase II aid programmes for eastern Europe should look at "how one could help change farm structures, in particular in relation to the development of co-operatives, in order to rationalise production and domestic distribution networks," he said. That should overcome some of the difficulties caused by the fragmentation of farmland and assets.

Mr. Stejskal also highlighted the paradox facing eastern Europe's agricultural policy-makers.

In order to be accepted into the EU and to make a smooth transition into world trade, they must shun some of the core measures of the CAP.

That theme was developed

by Prof. Stefan Tangermann, a leading agricultural economist who advises the European Commission, the World Bank, the Organisation for Economic Co-operation and Development and the United Nations Food and Agriculture Organisation on agricultural strategy.

Prof. Tangermann said Poland and Hungary in particular had opened their food markets fully to international competition after the collapse of communism, but that the plunge in farm prices had led to pressure from farmers for protectionist measures.

"There is a trend towards introducing more protective agricultural policy instruments which have a certain similarity with those of the EU, in particular variable levies and export subsidies," he said.

Shadowing the CAP could present these countries with an intolerable financial burden, warned Prof. Tangermann. According to one economic model, Hungary, Poland, the Czech Republic and Slovakia would be spending more than Ecu3.5bn (Ecu3.5bn) on export subsidies by 2000 if they tried to match EU farm prices.

That scenario assumed that their farm output recovered, domestic consumption expanded only slightly and net exports thus rose significantly. Prof. Tangermann predicted that by 2000 central Europe could have an exportable grain surplus of about 10m tonnes, a sugar surplus of 2m tonnes, the potential for net exports of 800,000 tonnes each of beef and pork, and a butter surplus of about 400,000 tonnes.

"Governments in central Europe should consider whether their current tendency to adopt 'CAP-like' agricultural policies is in their best interests," he said.

"The optimal policy would be to be cautious about the level of support they provide to their farmers until the time they accede [to the EU]."

The argument found an echo among speakers from Poland and the Czech Republic. Mr. Andrzej Kwiecinski, head of the agricultural policy analysis unit that advises the government, said Poland could not afford to finance an EU-style system of protection.

"The focus should be not on the present CAP, which in coming years will be significantly modified due to the MacSharry reforms and the Uruguay Round of the Gatt, but rather on the probable model that will take shape in the European Union in 10 or even 15 years," he said.

Mr. Tomas Douha, head of the Czech agriculture policy unit, said his country had to avoid the danger of land being abandoned and rural areas depopulated by adopting a policy of "sustainable agriculture in accordance with the progressive elements and tendencies of the CAP."

In a striking parallel to the current debate in western Europe, he said farming in eastern Europe would have to concentrate not only on food production, but also "the environment, natural resources, the landscape, and the social and cultural traditions of our rural regions".

## Chile issues copper plan ultimatum

By David Pilling in Santiago

The Cyprus Amax/Lac Minerals consortium, which last year offered \$650m for 51 per cent of the El Abra copper deposit in Chile, has been given until May 15 to sign documents. The ultimatum, delivered by CODECO, Chile's state copper company and the prospective joint-venture partner of the US/Canadian consortium, carries with it the possibility of legal action.

If the consortium backed down on its original offer, "CODECO has the possibility to reject it... and to use the courts to get compensation for any losses suffered," said Mr. Jorge Andrade, CODECO's vice-president for development. The consortium last month

postponed the agreement after discovering that ore grades might be lower than originally estimated.

Ms. Patricia Merriñ Best, vice-president corporate and investor relations at Lac Minerals, said the "due diligence process" had begun. This gave the consortium the right to make further tests, which would be completed by mid-May, she said.

Asked whether statements from CODECO had soured negotiations, Ms. Merriñ Best said: "We have goodwill and good faith and both parties hope that this can go ahead." She pointed out that Mr. Andrade had expressed confidence that an agreement could be worked out.

A mining executive in San-

tiago said the public jostling between the joint-venture partners did not augur well. "It's a bit like getting married when you've started fighting even before you've got to the altar," he said.

Mr. Jorge Rodriguez, acting CODECO president, said that if negotiations with the consortium broke down, CODECO would probably call a second round of bidding.

Under CODECO's original rules, failure to conclude a deal with the highest bidder was to have resulted automatically in the start of negotiations with the under bidder. An executive at BHP Minerals/Magma, second in last year's bidding, said he thought the consortium would still be interested in developing El Abra.

## Sugar rise 'may run out of momentum'

By Richard Mooney

The recent upturn advance in sugar prices may run out of momentum, says London trade house E. D. F. Man, because of a lack of "prompt physical off-take". But it expects prices to be maintained by "a back-

ground of tight fundamental (supply/demand) balance and the expectation of off-take later in the year.

In its latest Sugar Situation report Man says the "much anticipated upward trek in prices has started despite persistent uncertainty surround-

ing import demand prospects". It notes that import demand has languished, "plagued by political procrastination and administrative delays". But, "surprisingly", market interest in potential Russian, Chinese and Indian demand "show little sign of fatigue".

## MARKET REPORT

## Coffee futures break resistance to reach three-month highs

London Commodity Exchange COFFEE futures climbed to the highest levels since mid-December yesterday and some traders suggested a test of resistance at last year's highs might be on the cards.

The May position broke through resistance at \$1,250 a

tonne early on and that attracted fresh speculative purchases, notably by investment funds. "The buying came from all over this afternoon," said one dealer. "It's all looking quite positive." He did not rule out an assault on the \$1,300 level. Others were less bullish,

confining their short term projections to a test of the next band of resistance between \$1,280 and \$1,288 a tonne, where fresh producer sales of coffee were thought likely.

COCOA futures also ended the day firm, although they still showed little sign of

breaking free of the recent trading range.

Base metal prices were largely on the defensive at the London Metal Exchange. Sellers had the upper hand, dealers said, and downside chart points were coming under threat by the close.

COPPER'S retreat from \$1,930 in the morning left the market vulnerable after lunch, and although signs of nearby supply tightness remained the three months delivery price closed \$6.25 down at \$1,806.50 a tonne. Compiled from Reuters

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Amstar Metal Trading)

ALUMINIUM, 99.7 PURITY (% per tonne)

Close 1267.5-8.5 1268.5-1

Previous 1268.0-1 1302.9

High/Low 1276.5/1274.5 1301/1283

AM Official 1276.5-7 1287.7-5

Karb close 1284.5

Open int. 268,872

Total daily turnover 26,400

ALUMINIUM ALLOY (% per tonne)

Close 1221.6 1216.7

Previous 1220.5 1215.20

High/Low 1230.40 1219/1215

AM Official 1230.40 1219.20

Karb close 1210.5

Open int. 3,333

Total daily turnover 851

LEAD (% per tonne)

Close 401.2 445.6

Previous 441.5-2.5 455.4

High/Low 460/442

AM Official 442.5-3 456.7-5

Karb close 446.9

Open int. 36,035

Total daily turnover 15,773

NICKEL (% per tonne)

Close 5475.95 5583.6

Previous 5583.6 5680.5

High/Low 5705/5510

AM Official 5680.5 5693.40

Karb close 5510.5

Open int. 50,385

Total daily turnover 14,497

ZINC (% per tonne)

Close 5292.7 5342.4

Previous 5325.85 5325.30

High/Low 5400/5305

AM Official 5310.5 5300.5

Karb close 5300.5

Open int. 20,100

Total daily turnover 7,401

22NC, special high grade (% per tonne)

Close 918.9 935.9

Previous 934.4-5 934.4-5

High/Low 939/923

AM Official 918.5 938.6-5

Karb close 937.5-8.5

Open int. 106,616

Total daily turnover 12,677

COPPER, grade A (% per tonne)

Close 1692.3 1808.9

Previous 1808.9 1814.5

High/Low 1817.5 1817.5

AM Official 1697.4 1815/1802

Karb close 1808.9

Open int. 243,742

Total daily turnover 46,500

LINE AM Official C/S rate, 1.4897

LINE Closing C/S rate, 1.4916

Spec. 1.4910 3 months, 1.4866 6 months, 1.4838 9 months, 1.4821

HIGH GRADE COPPER (COMEX)

Close 88.40 88.10

Previous 88.10 88.10

High/Low 88.10 88.10

AM Official 88.40 88.10

Karb close 88.10

Open int. 389

Total daily turnover 104,599

LECO Leds Mean Gold Landing Rates (vs US\$)

1 month 3.15 6 months 3.28

2 months 3.18 12 months 3.81

3 months 3.24

Spec. 351.25 523.25

Spot 355.35 327.80

3 months 336.50 333.00

6 months 345.50 345.50

1 year 345.50 345.50

Gold C/S rate 5 prices 2 equiv.

Kruggerand 378.381 254.257

Maple Leaf 388.15-380.80

New Sovereign 89.92 60.41

## PRECIOUS METALS

## LONDON BULLION MARKET

(Prices supplied by N. M. Rothschild)

Gold (Troy oz.) \$ price

Close 377.40-377.80

Previous 376.80-377.20

High/Low 377.00 253.80

AM Official 377.50 252.95

Karb close 377.50

Open int. 377.50-377.90

Total daily turnover 377.50-377.90

Day's Low 376.80-377.15

Previous close 376.40-376.80

LECO Leds Mean Gold Landing Rates (vs US\$)

1 month 3.15 6 months 3.28

2 months 3.18 12 months 3.81

3 months 3.24

Spec. 351.25 523.25

Spot 355.35 327.80

3 months 336.50 333.00

6 months 345.50 345.50

1 year 345.50 345.50

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Spec. 351.25 523.25

Spot 355.35 327.80

3 months 336.50 333.00



**LONDON SHARE SERVICE****INVESTMENT TRUSTS - Cont**[illegible]

**TRANSPORT - Cont.**[illegible][illegible]

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[illegible]

**BERMUDA (SIB RECOGNISED)**

[illegible]

**GUERNSEY** (SIB RECOGNISED)

[illegible]

EMANA 100 Mops	4	18.178	9.378	0.000	-0.000
EMANA LG Dollar Mops	4	32.0514	9.9814	1.155	-0.000
EMANA S Bond	4	15.1546	5.1546	1.5818	-0.000
EMANA 100 Amer Eurobond	4	27.734	27.734	28.000	-0.000

[illegible]

UK	Active	114.72	14.72	15.00	
UK	Liquid Assets	110.00	10.00	10.00	
UK	Index	275.62	15.62	15.00	
US	Index	218.50	18.50	18.00	

[illegible][illegible]

Lazard Fund Managers (GI) Ltd				
Lazard Cap. Growth Bond ..	\$393.05	372.71	+0.67	3.30
Lazard Global Bond (Int)	\$20.48	21.51	-0.39	5.00

[illegible]

**RECEIVED**

[illegible]

La Touche House, IFSC, Dublin 1	010 2531 6701444
Broadway Theatres And Entertainment Fund plc	
Australia/New Zealand	\$ 9.50 — -

[illegible][illegible]

	Bid Price	Offer Price	Net -	Yield Gross
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[illegible]

Black American	£1,131.6	+0.07%	-
and Fibreboard International Fd Mngrs Ltd (st)			
Global Special Markets	\$1,214	+0.001	0.00

Payroll	\$1,010		
Depreciation	1,000		
Interest	1,000		
Income taxes	1,000		
Div. income	1,000		
Net income	1,000		
Change in cash	1,000		
<b>Total</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>

<b>Non Mutual Insurance Internal LMS</b>			
Payroll	10,000	10,000	
Depreciation	10,000	10,000	
Interest	10,000	10,000	
Income taxes	10,000	10,000	
Div. income	10,000	10,000	
Net income	10,000	10,000	
Change in cash	10,000	10,000	
<b>Total</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

<b>Non Worker Offshore Funds Pte (C)</b>			
Payroll	10,000	10,000	
Depreciation	10,000	10,000	
Interest	10,000	10,000	
Income taxes	10,000	10,000	
Div. income	10,000	10,000	
Net income	10,000	10,000	
Change in cash	10,000	10,000	
<b>Total</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

<b>Non Worker Offshore Internal LMS</b>			
Payroll	10,000	10,000	
Depreciation	10,000	10,000	
Interest	10,000	10,000	
Income taxes	10,000	10,000	
Div. income	10,000	10,000	
Net income	10,000	10,000	
Change in cash	10,000	10,000	
<b>Total</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

<b>Non Worker Offshore Funds Pte (C)</b>			
Payroll	10,000	10,000	
Depreciation	10,000	10,000	
Interest	10,000	10,000	
Income taxes	10,000	10,000	
Div. income	10,000	10,000	
Net income	10,000	10,000	
Change in cash	10,000	10,000	
<b>Total</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

<b>Non Worker Offshore Internal LMS</b>			
Payroll	10,000	10,000	
Depreciation	10,000	10,000	
Interest	10,000	10,000	
Income taxes	10,000	10,000	
Div. income	10,000	10,000	
Net income	10,000	10,000	
Change in cash	10,000	10,000	
<b>Total</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

<b>Non Worker Offshore Funds Pte (C)</b>			
Payroll	10,000	10,000	
Depreciation	10,000	10,000	
Interest	10,000	10,000	
Income taxes	10,000	10,000	
Div. income	10,000	10,000	
Net income	10,000	10,000	
Change in cash	10,000	10,000	
<b>Total</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

<b>Non Worker Offshore Internal LMS</b>			
Payroll	10,		

Income £	£11,887	11,888	+0.001	-
Ind E	£11,364	11,364	+0.000	-
Profit £	£10,900	11,053	+0.014	-
Profit Deposit £	£10,889	-	+0.001	-

Current Income	12.12	12.63	12.67	12.72	12.77	12.82	12.87	12.92	12.97	13.02	13.07	13.12	13.17	13.22	13.27	13.32	13.37	13.42	13.47	13.52	13.57	13.62	13.67	13.72	13.77	13.82	13.87	13.92	13.97	14.02	14.07	14.12	14.17	14.22	14.27	14.32	14.37	14.42	14.47	14.52	14.57	14.62	14.67	14.72	14.77	14.82	14.87	14.92	14.97	15.02	15.07	15.12	15.17	15.22	15.27	15.32	15.37	15.42	15.47	15.52	15.57	15.62	15.67	15.72	15.77	15.82	15.87	15.92	15.97	16.02	16.07	16.12	16.17	16.22	16.27	16.32	16.37	16.42	16.47	16.52	16.57	16.62	16.67	16.72	16.77	16.82	16.87	16.92	16.97	17.02	17.07	17.12	17.17	17.22	17.27	17.32	17.37	17.42	17.47	17.52	17.57	17.62	17.67	17.72	17.77	17.82	17.87	17.92	17.97	18.02	18.07	18.12	18.17	18.22	18.27	18.32	18.37	18.42	18.47	18.52	18.57	18.62	18.67	18.72	18.77	18.82	18.87	18.92	18.97	19.02	19.07	19.12	19.17	19.22	19.27	19.32	19.37	19.42	19.47	19.52	19.57	19.62	19.67	19.72	19.77	19.82	19.87	19.92	19.97	20.02	20.07	20.12	20.17	20.22	20.27	20.32	20.37	20.42	20.47	20.52	20.57	20.62	20.67	20.72	20.77	20.82	20.87	20.92	20.97	21.02	21.07	21.12	21.17	21.22	21.27	21.32	21.37	21.42	21.47	21.52	21.57	21.62	21.67	21.72	21.77	21.82	21.87	21.92	21.97	22.02	22.07	22.12	22.17	22.22	22.27	22.32	22.37	22.42	22.47	22.52	22.57	22.62	22.67	22.72	22.77	22.82	22.87	22.92	22.97	23.02	23.07	23.12	23.17	23.22	23.27	23.32	23.37	23.42	23.47	23.52	23.57	23.62	23.67	23.72	23.77	23.82	23.87	23.92	23.97	24.02	24.07	24.12	24.17	24.22	24.27	24.32	24.37	24.42	24.47	24.52	24.57	24.62	24.67	24.72	24.77	24.82	24.87	24.92	24.97	25.02	25.07	25.12	25.17	25.22	25.27	25.32	25.37	25.42	25.47	25.52	25.57	25.62	25.67	25.72	25.77	25.82	25.87	25.92	25.97	26.02	26.07	26.12	26.17	26.22	26.27	26.32	26.37	26.42	26.47	26.52	26.57	26.62	26.67	26.72	26.77	26.82	26.87	26.92	26.97	27.02	27.07	27.12	27.17	27.22	27.27	27.32	27.37	27.42	27.47	27.52	27.57	27.62	27.67	27.72	27.77	27.82	27.87	27.92	27.97	28.02	28.07	28.12	28.17	28.22	28.27	28.32	28.37	28.42	28.47	28.52	28.57	28.62	28.67	28.72	28.77	28.82	28.87	28.92	28.97	29.02	29.07	29.12	29.17	29.22	29.27	29.32	29.37	29.42	29.47	29.52	29.57	29.62	29.67	29.72	29.77	29.82	29.87	29.92	29.97	30.02	30.07	30.12	30.17	30.22	30.27	30.32	30.37	30.42	30.47	30.52	30.57	30.62	30.67	30.72	30.77	30.82	30.87	30.92	30.97	31.02	31.07	31.12	31.17	31.22	31.27	31.32	31.37	31.42	31.47	31.52	31.57	31.62	31.67	31.72	31.77	31.82	31.87	31.92	31.97	32.02	32.07	32.12	32.17	32.22	32.27	32.32	32.37	32.42	32.47	32.52	32.57	32.62	32.67	32.72	32.77	32.82	32.87	32.92	32.97	33.02	33.07	33.12	33.17	33.22	33.27	33.32	33.37	33.42	33.47	33.52	33.57	33.62	33.67	33.72	33.77	33.82	33.87	33.92	33.97	34.02	34.07	34.12	34.17	34.22	34.27	34.32	34.37	34.42	34.47	34.52	34.57	34.62	34.67	34.72	34.77	34.82	34.87	34.92	34.97	35.02	35.07	35.12	35.17	35.22	35.27	35.32	35.37	35.42	35.47	35.52	35.57	35.62	35.67	35.72	35.77	35.82	35.87	35.92	35.97	36.02	36.07	36.12	36.17	36.22	36.27	36.32	36.37	36.42	36.47	36.52	36.57	36.62	36.67	36.72	36.77	36.82	36.87	36.92	36.97	37.02	37.07	37.12	37.17	37.22	37.27	37.32	37.37	37.42	37.47	37.52	37.57	37.62	37.67	37.72	37.77	37.82	37.87	37.92	37.97	38.02	38.07	38.12	38.17	38.22	38.27	38.32	38.37	38.42	38.47	38.52	38.57	38.62	38.67	38.72	38.77	38.82	38.87	38.92	38.97	39.02	39.07	39.12	39.17	39.22	39.27	39.32	39.37	39.42	39.47	39.52	39.57	39.62	39.67	39.72	39.77	39.82	39.87	39.92	39.97	40.02	40.07	40.12	40.17	40.22	40.27	40.32	40.37	40.42	40.47	40.52	40.57	40.62	40.67	40.72	40.77	40.82	40.87	40.92	40.97	41.02	41.07	41.12	41.17	41.22	41.27	41.32	41.37	41.42	41.47	41.52	41.57	41.62	41.67	41.72	41.77	41.82	41.87	41.92	41.97	42.02	42.07	42.12	42.17	42.22	42.27	42.32	42.37	42.42	42.47	42.52	42.57	42.62	42.67	42.72	42.77	42.82	42.87	42.92	42.97	43.02	43.07	43.12	43.17	43.22	43.27	43.32	43.37	43.42	43.47	43.52	43.57	43.62	43.67	43.72	43.77	43.82	43.87	43.92	43.97	44.02	44.07	44.12	44.17	44.22	44.27	44.32	44.37	44.42	44.47	44.52	44.57	44.62	44.67	44.72	44.77	44.82	44.87	44.92	44.97	45.02	45.07	45.12	45.17	45.22	45.27	45.32	45.37	45.42	45.47	45.52	45.57	45.62	45.67	45.72	45.77	45.82	45.87	45.92	45.97	46.02	46.07	46.12	46.17	46.22	46.27	46.32	46.37	46.42	46.47	46.52	46.57	46.62	46.67	46.72	46.77	46.82	46.87	46.92	46.97	47.02	47.07	47.12	47.17	47.22	47.27	47.32	47.37	47.42	47.47	47.52	47.57	47.62	47.67	47.72	47.77	47.82	47.87	47.92	47.97	48.02	48.07	48.12	48.17	48.22	48.27	48.32	48.37	48.42	48.47	48.52	48.57	48.62	48.67	48.72	48.77	48.82	48.87	48.92	48.97	49.02	49.07	49.12	49.17	49.22	49.27	49.32	49.37	49.42	49.47	49.52	49.57	49.62	49.67	49.72	49.77	49.82	49.87	49.92	49.97	50.02	50.07	50.12	50.17	50.22	50.27	50.32	50.37	50.42	50.47	50.52	50.57	50.62	50.67	50.72	50.77	50.82	50.87	50.92	50.97	51.02	51.07	51.12	51.17	51.22	51.27	51.32	51.37	51.42	51.47	51.52	51.57	51.62	51.67	51.72	51.77	51.82	51.87	51.92	51.97	52.02	52.07	52.12	52.17	52.22	52.27	52.32	52.37	52.42	52.47	52.52	52.57	52.62	52.67	52.72	52.77	52.82	52.87	52.92	52.97	53.02	53.07	53.12	53.17	53.22	53.27	53.32	53.37	53.42	53.47	53.52	53.57	53.62	53.67	53.72	53.77	53.82	53.87	53.92	53.97	54.02	54.07	54.12	54.17	54.22	54.27	54.32	54.37	54.42	54.47	54.52	54.57	54.62	54.67	54.72	54.77	54.82	54.87	54.92	54.97	55.02	55.07	55.12	55.17	55.22	55.27	55.32	55.37	55.42	55.47	55.52	55.57	55.62	55.67	55.72	55.77	55.82	55.87	55.92	55.97	56.02	56.07	56.12	56.17	56.22	56.27	56.32	56.37	56.42	56.47	56.52	56.57	56.62	56.67	56.72	56.77	56.82	56.87	56.92	56.97	57.02	57.07	57.12	57.17	57.22	57.27	57.32	57.37	57.42	57.47	57.52	57.57	57.62	57.67	57.72	57.77	57.82	57.87	57.92	57.97	58.02	58.07	58.12	58.17	58.22	58.27	58.32	58.37	58.42	58.47	58.52	58.57	58.62	58.67	58.72	58.77	58.82	58.87	58.92	58.97	59.02	59.07	59.12	59.17	59.22	59.27	59.32	59.37	59.42	59.47	59.52	59.57	59.62	59.67	59.72	59.77	59.82	59.87	59.92	59.97	60.02	60.07	60.12	60.17	60.22	60.27	60.32	60.37	60.42	60.47	60.52	60.57	60.62	60.67	60.72	60.77	60.82	60.87	60.92	60.97	61.02	61.07	61.12	61.17	61.22	61.27	61.32	61.37	61.42	61.47	61.52	61.57	61.62	61.67	61.72	61.77	61.82	61.87	61.92	61.97	62.02	62.07	62.12	62.17	62.22	62.27	62.32	62.37	62.42	62.47	62.52	62.57	62.62	62.67	62.72	62.77	62.82	62.87	62.92	62.97	63.02	63.07	63.12	63.17	63.22	63.27	63.32	63.37	63.42	63.47	63.52	63.57	63.62	63.67	63.72	63.77	63.82	63.87	63.92	63.97	64.02	64.07	64.12	64.17	64.22	64.27	64.32	64.37	64.42	64.47	64.52	64.57	64.62	64.67	64.72	64.77	64.82	64.87	64.92	64.97	65.02	65.07	65.12	65.17	65.22	65.27	65.32	65.37	65.42	65.47	65.52	65.57	65.62	65.67	65.72	65.77	65.82	65.87	65.92	65.97	66.02	66.07	66.12	66.17	66.22	66.27	66.32	66.37	66.42	66.47	66.52	66.57	66.62	66.67	66.72	66.77	66.82	66.87	66.92	66.97	67.02	67.07	67.12	67.17	67.22	67.27	67.32	67.37	67.42	67.47	67.52	67.57	67.62	67.67	67.72	67.77	67.82	67.87	67.92	67.97	68.02	68.07	68.12	68.17	68.22	68.27	68.32	68.37	68.42	68.47	68.52	68.57	68.62	68.67	68.72	68.77	68.82	68.87	68.92	68.97	69.02	69.07	69.12	69.17	69.22	69.27	69.32	69.37	69.42	69.47	69.52	69.57	69.62	69.67	69.72	69.77	69.82	69.87	69.92	69.97	70.02	70.07	70.12	70.17	70.22	70.27	70.32	70.37	70.42	70.47	70.52	70.57	70.62	70.67	70.72	70.77	70.82	70.87	70.92	70.97	71.02	71.07	71.12	71.17	71.22	71.27	71.32	71.37	71.42	71.47	71.52	71.57	71.62	71.67	71.72	71.77	71.82	71.87	71.92	71.97	72.02	72.07	72.12	72.17	72.22	72.27	72.32	72.37	72.42	72.47	72.52	72.57	72.62	72.67	72.72	72.77	72.82	72.87	72.92	72.97	73.02	73.07	73.12	73.17	73.22	73.27	73.32	73.37	73.42	73.47	73.52	73.57	73.62	73.67	73.72	73.77	73.82	73.87	73.92	73.97	74.02	74.07	74.12	74.17	74.22	74.27	74.32	74.37	7
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[illegible][illegible][illegible]

Net Income	57	175.7	15.7	12.1	45	10.6
Net Profit	57	175.7	15.7	12.1	45	10.6
Net Profit	57	175.7	15.7	12.1	45	10.6

Bank of Montreal	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of New York	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of America	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of England	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of France	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Germany	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Italy	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Japan	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Spain	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Sweden	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Switzerland	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of the Netherlands	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Belgium	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Greece	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Russia	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Turkey	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Persia	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Siam	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Ceylon	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of India	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of China	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Korea	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
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Bank of Manchuria	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Korea	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of China	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
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Bank of Japan	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of the Philippines	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Formosa	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Manchuria	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Korea	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of China	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of Japan	135.61	33.61	34.61	35.61	36.61	37.61	38.61	39.61	40.61
Bank of the Philippines	135.61	33.61	34.61	35.61	36.61	37.61			

1981	5	182.49	183.40	183.15	+1.16	0.00
1982	5	487.43	484.04	520.85	+5.41	10.00
1983	3	113.33	113.33	114.85	+0.87	0.00

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## CURRENCIES AND MONEY

## MARKETS REPORT

## D-Mark moves lower

The weekend settlement of the wage dispute in the German engineering sector set the tone for exchange markets yesterday, writes Philip Garside.

The pay deal - effectively a wage freeze - was at the lower end of market expectations and renewed hopes that the Bundesbank might quicken the pace of monetary easing.

The central bank is expected today to announce a further easing in the repo rate, the indicator it uses to set the level of money market rates.

The D-Mark finished lower in London against most European currencies, but was slightly firmer against the dollar and sterling.

Analysis said President Clinton's political difficulties arising from the Whitewater scandal, still remained of only minor concern to markets.

The engineering industry wage settlement was widely interpreted as improving the outlook for lower German interest rates. But this reaction was still tempered with caution.

The March Eurodollar futures contract was only four basis points higher at 94.19 yesterday afternoon, indicating a fairly modest view of where rates are heading.

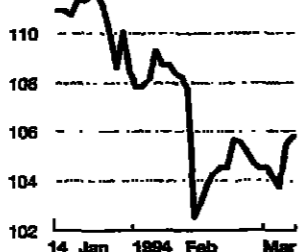
Although the longer contracts reacted more positively, the December contract rose by 13 basis points to 94.96. Mr Tony Norfield, UK Treasury economist at ABN-AMRO, said even these gains revealed "continuing scepticism" about the prospect for lower rates.

While most observers are anticipating an easing in the repo rate today, nothing dramatic is on the cards. Mr Jeremy Hawkins, senior economic adviser at the Bank of America, said he did not expect a cut of more than five basis points; but Mr Brian Martin, senior economist at Citibank, said the market seemed to be looking for a 10 basis point reduction.

Mr Martin said the relative strength of the D-Mark and the fact that the bond market had recovered its poise - added to a fairly benign inflationary outlook - suggested the Bundesbank had room for a cut of this order.

## Dollar

Against the Yen (Y per \$)



Source: FT Graphite

■ Poured in New York

Mar 7 1.4885 1.4885

1m 1.4885 1.4885

3m 1.4885 1.4885

1y 1.4885 1.4885

The picture yesterday was of uneven D-Mark weakness; it finished lower against the Belgian and French francs, and the Spanish peseta, but was firmer against the Italian lira.

The first finished in London at 1982.8 from 1981.7 on Friday and a low yesterday of 1984.30.

Mr Hawkins said the weaker Italian currency appeared to be the product of recent opinion polls showing that a centre-right coalition government might now be more likely than a centre-left coalition. Italy faces a general election on March 27.

International investors are said to favour the centre-left option because it improves the prospect of Mr Carlo Azeglio Ciampi, the prime minister, staying in government. He was previously the highly respected governor of the Bank of Italy.

The weaker D-Mark lent a firmer tone to the dollar which was also supported by the continuation of its recent recovery against the yen. The dollar closed in London at a high for the day of Y105.850, from Y105.515 on Friday.

Rumours that the Fed might tighten credit policy yesterday proved unfounded. Mr Norfield said the next move would probably come after the meeting of the policy-making Federal Open Market Committee on March 22.

Mr Hawkins said the fact that the dollar had made so

little headway, despite the heightened prospect of a move on German rates, "says something about the political wariness now in the market about Whitewater."

Having been very much on the periphery of the market's focus, he said the financial scandal dogging the Clinton administration was "starting to gravitate more towards the centre."

Mr Martin from Citibank, however, said Whitewater had not yet been much of a factor in the market's thinking.

Mr Hawkins said a closer look at last Friday's employment report could also have contributed to uncertainty about the dollar. He said the important earnings growth and hours worked factors were, if anything, on the soft side and could have delayed the prospect of a further Fed tightening.

The appreciation of the dollar against the yen flows from the US administration's decision to reactivate the Super 301 measures allowing trade sanctions to be implemented - in this case against Japan. The market appears to have taken the view that, with Super 301 in its arsenal, the US will be less tempted to talk up the yen as a means of curbing its bilateral trade deficit with Japan.

■ Liquidity conditions in the UK money markets were easy yesterday. The Bank of England put £1.8bn of liquidity into the system, equal to its revised estimate of the shortage.

Sterling traded in a fairly narrow range to close marginally weaker against the D-Mark and the dollar at DM0.5515 and \$1.4906 respectively. Weaker than expected credit growth in January, a fall in housing starts and the German pay deal, all lent support to a further fall in interest rates.

The June short sterling contract rose by four basis points to 94.94.

■ OTHER CURRENCIES

Mar 7 1.4885 1.4885

1m 1.4885 1.4885

3m 1.4885 1.4885

1y 1.4885 1.4885

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## POUND SPOT FORWARD AGAINST THE POUND

Mar 7	Closing bid-offer	Change on day	Day's bid-offer	One month	Three months	One year	JP Morgan
				Rate	Rate	Rate	Index
Europe	(Sch)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Austria	(Sfr)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Belgium	(Bfr)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Denmark	(DKr)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
France	(FFr)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Germany	(M)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Greece	(Dr)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Italy	(L)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Japan	(Y)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Netherlands	(Gld)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Norway	(Nkr)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Portugal	(Esc)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Spain	(Ptas)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Sweden	(Skr)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Switzerland	(Sfr)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
UK	(£)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
USA	(D)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Canada	(Cdn)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Australia	(A\$)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
New Zealand	(NZ\$)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
South Africa	(Rand)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
India	(Rupee)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
China	(Yuan)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
South Korea	(Won)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Taiwan	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Philippines	(Peso)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Thailand	(Baht)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Malaysia	(Ringgit)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Singapore	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Brunei	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Indonesia	(Rupiah)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Myanmar	(Kyat)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Burma	(Kyat)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Vietnam	(Dong)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Laos	(Kip)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Cambodia	(Riel)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
North Korea	(Won)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
South Korea	(Won)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Taiwan	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Philippines	(Peso)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Thailand	(Baht)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Malaysia	(Ringgit)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Singapore	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Brunei	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Indonesia	(Rupiah)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Myanmar	(Kyat)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Burma	(Kyat)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Vietnam	(Dong)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Laos	(Kip)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Cambodia	(Riel)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
North Korea	(Won)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
South Korea	(Won)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Taiwan	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Philippines	(Peso)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Thailand	(Baht)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Malaysia	(Ringgit)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Singapore	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Brunei	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Indonesia	(Rupiah)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Myanmar	(Kyat)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Burma	(Kyat)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Vietnam	(Dong)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Laos	(Kip)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Cambodia	(Riel)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
North Korea	(Won)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
South Korea	(Won)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
Taiwan	(Dollar)	16.0177	0.0035	16.0142	16.0139	16.0139	0.2
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**EUROPE**

## INDICE

\* Domestic. † Calculated at 16:00 GMT. ‡ Excluding bonds. § Industrial, plus Utilities, Financial and Transportation.

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1. The first step in the process is to identify the problem or issue that needs to be addressed. This involves gathering information and understanding the context of the problem.

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AMERICA

# Arms groups' \$1.9bn merger helps lift Dow

Wall Street

Rallying European stocks, firmer bond prices and news of a billion-dollar defence industry merger lifted US share prices across the board yesterday morning, writes Patrick Horsman in New York.

By 1 pm, the Dow Jones Industrial Average was up 19.42 at 3,851.72, slightly below its high for the day. The more broadly based Standard & Poor's 500 was also firmer, gaining 2.74 at 487.48, while the American Stock Exchange composite was 2.57 higher at 489.05 and the Nasdaq composite up 4.59 at 795.14. Trading volume on the NYSE was 173m shares by 1 pm.

After recent wild fluctuations, share prices opened the new week in impressive fashion, moving into positive territory right from the opening. Traders said several factors were behind the advance: a recovery in European stocks, hit last week by turmoil in local bond markets; early gains in US bond prices; and news of a big merger between defence companies.

The latter was particularly welcome, given that the market had been rattled by the collapse two weeks ago of the billion-dollar union between Bell Atlantic and Telecommunications. Yesterday's news involved Grumman, the Long Island defence contractor, which has agreed to be taken over by Martin Marietta, another defence group, in a deal valued at \$1.9bn.

The announcement of the agreement sent Grumman's shares soaring in heavy trading. By early afternoon they were trading at \$54, up \$14, or 35 per cent. Martin Marietta has offered to pay \$55 each for every Grumman share. Wall Street clearly liked the deal, because Martin Marietta's shares also rose on the news, climbing \$1 to \$45.

Salomon jumped \$1 to \$51 1/4 as investors reacted warmly to Friday's late announcement

that Mr Warren Buffett, the billionaire investor and former interim chairman of the securities house, had increased his stake in the company from 14.7 per cent to 19 per cent. The move was seen as a vote of confidence in Salomon's long-term ability to generate profits.

USAir dropped \$1 to \$39 in busy trading after warning that it would make a pre-tax loss of \$200m in the first quarter of the year, compared to a loss of \$61m a year earlier. USAir blamed bad weather and price competition for its poor results.

Philip Morris, which has been hit recently by concern that the government might impose strict regulations on cigarettes, rose \$2 to \$56 amid speculation that the planned increase in excise taxes may be smaller than originally feared.

Heavy trading took Brazil 6.1 per cent higher by midday on expectations that the government would not raise taxes on foreign investment and amid optimism on constitutional reform. The Bovespa index was 688 points ahead at 11,828.

Trading picked up amid reports of proposals to end all state monopolies.

Toronto was spurred higher by bargain hunting, a stronger bond market, and subsiding fear of a rise in US interest rates.

By midday, the TSE 300 composite index was 27.68 higher at 4,262.22 in volume of 33.83m shares.

Growing optimism that real property prices are being made pushed Johannesburg up to a strong close. The overall index jumped 61, or 1.2 per cent, to 5,071, led by industrials, which ended 78 higher at 5,442. Golds rose 15 to 1,911.

EUROPE

# Bourse recovery accelerates on IG Metall deal

The weekend settlement of the German metalworkers' wage dispute lifted bond and equity markets around Europe in the morning, and healthy gains on Wall Street brought further strength to the afternoon, writes *Our Markets Staff*.

FRANKFURT got an IG Metall wage deal that it would have been happy with some weeks ago. The June bond future reacted, rising by a full percentage point to 97.43 by the evening. Equities responded with the Dax index 48.82, or 2.4 per cent higher on the session at 2,108.91, and closing the post-bure at an all-time high of 2,132.12.

Turnover rose from DM6.8bn to DM9.4bn. There was speculation about interest rate prospects; Allianz produced a 4 per cent gain during hours and a further DM22 rise to DM2,595 in the afternoon.

Carmakers were more striking, their gains led by Volkswagen which rose DM16.50 to DM454.50 on hopes of a modest 1993 dividend, and another DM3 to DM462.50 afterwards. There was interest in chemicals in their results week:

Hoechst, tipped by Goldman Sachs ahead of today's figures, put on DM6.60 to DM308.60, and another DM4.40 to DM315 in the post-bourse.

PARIS, too, majored on a surging bond market and gains in mid-morning trading in New York. The CAC 40 index ended 41.2, or 1.9 per cent higher at 2,319.89, in turnover of FF44m.

Among the winners, Club Med rose FF21.20 to FF497.20 on news that it would be selling some of its holiday villages to raise cash, rather than making another rights issue; and Eurotunnel's rights issue terms left it FF27.70 higher at FF52.10 on the feeling that one uncertainty was now out of the way.

The losers included Peugeot, down FF12 to FF785 before announcing a convertible issue after the close; Mr John Forster of Ferri International reckoned that the shares would rise on relief today.

Remy fell FF13.30 to FF234 on Hong Kong's tax increases on spirits and champagne. Here, Mr Fordyce conceded that Remy was very strong in the colony, much more so that

## FT-SE Actuaries Share Indices

Mar 7	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Actuaries 100	1448.91	1448.50	1447.72	1450.37	1452.03	1455.47	1458.81	1460.44
FT-SE Actuaries 200	1508.54	1507.59	1506.25	1507.56	1508.12	1511.25	1515.28	1516.19

LVMH, and at the top of the range where the tax imposts would hurt most, but it was not so strong, he said, as to deserve a near 4 per cent drop in share price.

MILAN's foreign investors

medium term was strengthened by its recent impressive performance elsewhere in Europe, where it was helped by the combination of the new successful Punto model and the undervalued lira.

LVMH, and at the top of the range where the tax imposed would hurt most, but it was not so strong, he said, as to deserve a near 4 per cent drop in share price.

MILAN's foreign investors returned and the Comit index rose 8.44, or 1.3 per cent to 660.59. Stet rose L236 or 5 per cent to L4,675 after Mr Paolo Savona, the industry minister, said that a plan for its privatisation, timetable from late 1994, should be ready soon. Sip put on L183 or 4.6 per cent to L4,194.

Fiat added L128 or 2.7 per cent to L4,899. Mr Nicholas Potter at Credito Italiano said that while sales were down in Italy, the group's ability to recover strongly over the

market's recent volatility. The SMI index added 53.5 to 2,918.7.

CS Holding rose Sfr13 to Sfr660 ahead of preliminary figures today and UBS put on Sfr19 to Sfr1,294.

Among firm cyclical, Holderbank, planning a joint venture to build a plant in Vietnam, put on Sfr45 to Sfr975 and Sulzer, finding favour with analysts, added Sfr35 to Sfr355. Brown Boveri, due to report tomorrow, added Sfr36 to Sfr1,110.

AMSTERDAM was in optimistic spirits with many dealers forecasting a move soon into record territory. Most shares closed near their day's high and the AEX index rose 10.51, or 2.5 per cent to 424.78.

The Dutch bourse was riding the generally positive mood sweeping European markets, with dealers buoyed by firmer bond markets and hopes of a cut in German interest rates.

Financials were a strong feature with an average rise in the sector of 3 per cent.

Philips, the electronics company, stirred up investor interest after presentations in the

UK following well-received results. It edged up F11 at F152.60 with a strong volume of 3.14m shares traded.

Hunter Douglas, the blind-maker and aluminium trader, set a new 12-month high at F193.50 before easing back to close at F190.80, a rise of F1.50 on the day.

Crucial bounced on news of a distribution deal in Germany and put on F1.50 to end at F150.50.

KLM traded actively and added F12.60 to reach F150.50. MADRID rose 1.8 per cent as strong bonds and the performance of other European markets encouraged buyers. The general index added 5.94 to 341.10.

Telefonica, the most active stock, rose Pta25 to Pta1,975 while Banco Central Hispana, put on Pta105 at Pta3,015. Construction stocks continued to forge ahead on government approval of an infrastructure plan: Aslamed added Pta115 or 4.4 per cent to Pta2,735.

Written and edited by William Cochrane, Michael Morgan and Christine Buckley

ASIA PACIFIC

# Nikkei fails to sustain early rally as Manila rebounds

Tokyo

A fall in government bond prices eroded early equity gains to leave the market lower, although foreign investors continued to provide support, writes *Emiko Terazono* in Tokyo.

The Nikkei 225 average relinquished 154.12 to 19,811.89 on arbitrage linked selling and profit-taking by institutional investors. The index hit a high for the day of 20,279.13 and fell to a low of 19,768.88 in the afternoon.

Active demand from foreign investors and arbitrage buying supported shares in the morning session, but most domestic investors remained inactive ahead of the March stock futures and options settlements on Friday. A fall in the bond market triggered heavy arbitrage selling based on the Topix index in the afternoon. Traders said that while invest-

ors have been rolling over their positions in the Nikkei 225 futures, much of the Topix positions had been liquidated.

Volume totalled 340m shares, down from 414m. The Topix index of all first section stocks slipped 14.19 to 1,608.10 and the Nikkei 300 shed 2.83 to 296.47. Declines led rises by 678 to 366, with 141 issues unchanged. But in London the FTSE 100/Nikkei 50 index firmed 3.44 to 1,326.15.

Profit-taking hit Nippon Telegraph and Telephone, pushing the issue down to Y10,000. Financials, heavily weighted in the Topix index, lost ground. Industrial Bank of Japan fell Y60 to Y3,250. Dai-ichi Kangyo Bank Y40 to Y1,930 and Nomura Securities Y30 to Y2,260.

Real estate companies were lower on profit-taking. Mitsui Fudosan retreated Y60 to Y1,190 and Mitsubishi Estate Y30 to Y1,020.

Growing concern over the current rice shortage sup-

ported rice traders. Although foreign rice has been imported to fill the gap, reports of shop- pers fighting for bags of rice prompted buying of Yamatane, which gained Y40 to Y1,040.

Bakeries and flour millers drew buying on expectations of a rise in demand for bread due to the lack of rice on the shop shelves. Yamazaki Baking rose Y30 to Y2,140 and Nittto Flour Milling Y5 to Y540.

Motor shares were firm on foreign buying. Toyota Motor climbed Y40 to Y2,080 and Nissan Motor Y11 to Y884.

In Osaka, the OSE average dipped 116.95 to 21,952.21 in volume of 61.1m shares. Aoki International, the men's suit retailer, put on Y140 to Y3,540 on bargain hunting.

Roundup

The region saw mixed performances, while trading volume was thin in many centres. MANILA rebounded after

more than a week of steep declines, although low turnover suggested that the market was still testing a new base. The composite index moved forward 47.46, or 1.8 per cent, to 2,654.28 as PLDT added 45 pesos at 1,910 pesos.

HONG KONG strengthened, the Hang Seng index adding 143.98, or 1.5 per cent, at 10,961.55, although this volume of HK\$4.48bn indicated that there were still nagging doubts about the market's direction.

AUSTRALIA mustered a firm performance, moving the All Industrials index up 42.1 to 3,299.5.

Futures helped the underlying market benefit from consolidation, and the majority of the leading stocks were able to enjoy the upward journey. BHP rose 20 cents to A\$17.42. News Corp put on 23 cents at A\$9.97 and CRA gained 34 cents at A\$17.30.

SINGAPORE failed to sustain an early rebound as invest-

ors remained cautious pending clearer directions in US interest rates. The Straits Times Industrial index lost a net 4.89 at 2,243.74 after an intraday peak of 2,275.89.

SEOUL saw widespread selling in the year's lowest volume on a full trading day and the composite index declined 7.15 to 885.82. Volume amounted to 17.16m shares, against 13.20m in Saturday's half-day session.

KUALA LUMPUR fell 1.7 per cent as investors liquidated positions amid worries about the direction of overseas markets and US interest rates. Fears of trade retaliation by Britain also discouraged buying interest and the composite index shed 18.62 to 1,045.72.

NEW ZEALAND ended with moderate buoyancy after a session beset by confusion over how the readjustment of Telecom's shares affected the NZSE-40 index. The index was quoted 13.4 higher at 2,195.4 following an upward adjust-

ment of 24 points, after the market closed.

THAILAND saw a retreat of the bears as concern over rising interest rates and political uncertainty began to ebb. The SET index finished 17.43, or 1.3 per cent, better at 1,376.89 in moderate turnover of Bt7.8bn.

TAIWAN's weighted index ended 28.87 to 5,647.59, with Saturday's confirmation that the authorities were raising the ceiling on foreign investment already discounted.

JAKARTA encountered foreign selling, although domestic investors gave some support, making for a mixed day's trading. The official index edged up 0.99 to 522.37.

BOMBAY weakened in nervous trade in a continuation of the downward movement which left the market with a drop of 11.3 per cent last week in the wake of the budget statement. The BSE 30-share index closed 58.99 lower at 3,744.61.

# Malaysia and Singapore tumble

By William Cochrane

Among the biggest global equity markets, early weakness based on suspect or poor economic data in the US and Germany was evened out later last week by nervous recoveries in America and Europe, and an extension of this year's relative strength in Japan. The FT-Actuaries World Index finished just 0.1 per cent down on the week in local currency terms.

Asian shares were another matter entirely. Malaysia weakening 6.1 per cent after a 5.3 per cent advance in the week before, and Singapore taking a 4.5 per cent tumble. This left them 14.1 and 11.1 per cent lower respectively on the year so far, compared with gains of more than 120 per cent and nearly 70 per cent in 1993.

Mr David Bates of Asia Equity in London says that Singapore, having fallen earlier this year along with other markets in south east Asia, had seen some feverish speculation in advance of the national budget on February 23 - which turned out to be conservative, although pos-

sitive, rather than a giveaway budget when corporate and personal taxes were concerned.

"The market was certainly discounting a 2 percentage-point cut in corporation tax," says Mr Bates, "and it did not get it."

Malaysia, comments Mr Bates, was run up after the elections in Sabah which the ruling party lost, but only by a very narrow margin. However, there was no follow-through: "The retail investor has become very cautious," says Mr Bates, "and it was the retail investor who was driving this market."

He adds that the Kuala Lumpur market is highly priced on fundamentals compared to its neighbours, but he also tends to link recent volatility in equities with the reduction in activity seen during the Moslem holy month of Ramadan, currently in progress.

Last week's outperformer was South Africa, whose stock price gains, in the end, owed nothing to a weak gold bullion price. Above all, industrial were moved by initial confidence in talks between the African National Congress and the Zulu Inkatha Freedom

MARKETS IN PERSPECTIVE						
	% change in local currency †			% change starting ‡	% change in US \$ ‡	
	1 Week	4 Weeks	1 Year	Start of 1993	Start of 1994	Start of 1995
Austria	-1.18	-4.06	+29.15	+40.93	+34.35	+32.29
Belgium	-0.51	-3.16	+21.73	+31.44	+25.29	+23.43
Denmark	-1.40	-2.80	+38.31	+51.75	+43.94	+41.69
Finland	+2.03	-4.30	+85.44	+127.69	+117.44	+114.05
France	-0.76	-6.08	+15.28	+24.91	+19.94	+18.05
Germany	-0.89	-4.05	+19.82	+32.17	+26.45	+24.45
Ireland	-0.74	-6.65	+37.80	+57.37	+40.87	+38.68
Italy	-0.55	-3.48	+22.81	+32.73	+35.40	+33.26
Netherlands	-0.19	-5.14	+27.18	+38.17	+32.30	+30.22
Norway	-2.45	-3.20	+51.39	+54.88	+46.05	+43.36
Spain	-0.53	-6.81	+36.11	+51.82	+25.28	+23.72
Sweden	-1.57	-4.18	+37.12	+47.69	+30.32	+28.32
Switzerland	-1.58	-8.50	+36.09	+41.02	+45.81	+42.02
UK	+0.10	-5.31	+40.10	+53.21	+18.21	+16.35
EUROPE	-0.53	-5.40	+21.02	+28.94	+25.34	+23.37
Australia	-1.25	-0.27	+25.51	+31.46	+38.71	+36.52
Hong Kong	-0.67	-18.10	+54.38	+81.24	+58.07	+62.19
Japan	+0.71	+0.51	+28.23	+24.06	+49.13	+48.76
Malaysia	-6.11	-5.52	+86.18	+99.55	+94.66	+91.51
New Zealand	-1.01	-10.39	+40.22	+43.75	+62.79	+60.22
Singapore	-4.52	-7.81	+43.00	+50.23	+58.01	+55.54
Canada	+1.14	-0.78	+20.80	+24.42	+18.26	+16.41
USA	-0.34	-1.09	+3.50	+6.14	+7.84	+8.14
Mexico	-0.76	-8.20	+35.85	+42.50	+39.41	+37.22
South Africa	+5.17	-0.18	+59.08	+63.47	+74.43	+71.58
WORLD INDEX	-0.10	-2.50	+18.89	+19.65	+25.95	+23.96

† Based on March 4th 1994.

‡ Source: The Financial Times Intelligence, Goldman, Sachs & Co., and

Party, then disillusioned; and hopes rose at the end of the week.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries																			
NATIONAL AND REGIONAL MARKETS Regions in parentheses show number of lines	FRIDAY MARCH 4 1994					THURSDAY MARCH 3 1994					DOLLAR INDEX								
	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency % chg	Local % chg	Gross Div. Yld.	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency % chg	Local % chg	Gross Div. Yld.	1983/84	1989/94	Year ago (ppts)
Australia (69)	170.82	-0.4	169.95	115.84	152.73	159.07	-1.5	3.35	171.48	170.06	112.79	152.33	181.45	189.15	130.19	135.00			
Austria (17)	185.34	-0.4	184.36	123.62	165.71	165.44	0.2	0.96	186.01	184.47	122.56	164.26	195.18	195.41	136.83	150.75			
Belgium (42)	164.44	0.1	163.59	109.89	147.02	143.59	0.7	4.00	164.24	162.98	108.40	145.92	142.65	180.08	141.69	184.90			
Canada (107)	134.82	0.3	133.82	88.79	120.36	132.47	0.8	2.54	134.17	133.00	90.29	119.20	131.63	146.31	121.40	121.93			
Denmark (52)	263.71	0.8	262.35	176.89	233.78	241.04	1.4	0.86	261.33	259.53	175.14	230.53	240.85	261.50	192.40	200.76			
Finland (29)	146.00	0.6	145.23	88.38	133.21	173.96	1.1	0.86	146.05	146.89	93.31	133.61	172.11	158.72	70.02	75.25			
France (86)	173.75	0.4	172.89	115.89	155.35	159.32	1.0	2.82	173.47	171.17	113.68	158.78	167.78	185.57	140.89	158.83			
Germany (69)	129.48	0.2	128.83	86.37	115.78	115.78	0.8	1.83	129.48	128.19	85.12	115.48	115.48	129.53	147.50	151.83			
Hong Kong (69)	453.50	1.5	451.53	268.20	360.86	400.42	1.5	2.52	397.47	394.19	281.46	353.12	364.36	392.93	229.33	233.83			
Ireland (14)	188.28	0.5	187.30	125.57	108.33	185.51	0.7	3.20	187.28	185.73	123.20	109.38	184.23	209.39	137.81	141.93			
Italy (69)	73.13	0.1	72.75	48.78	65.38	92.22	0.5	1.83	73.08	72.48	48.07	64.82	91.81	91.20	25.51	24.28			
Japan (468)	164.17	-0.1	163.38	102.83	137.84	129.83	1.3	0.78	164.17	163.38	102.83	137.84	129.83	164.17	163.38	102.83			
Malaysia (69)	521.42	-0.7	520.40	334.14	447.92	626.56	-0.7	1.40	504.70	500.55	332.48	438.48	626.56	624.34	287.40	277.65			
Mexico (18)	226.51	0.1	224.87	150.23	201.78	601.58	0.1	0.83	225.84	223.76	145.82	200.36	600.04	621.03	143.17	151.82			
Netherlands (26)	197.18	-0.5	196.19	131.50	178.28	173.87	0.1	3.07	195.08	194.62	130.29	175.58	173.87	207.43	161.44	162.21			
New Zealand (14)	98.72	-1.0	98.57	45.83	81.44	63.70	-1.8	3.85	98.72	98.57	45.83	81.44	63.70	98.72	98.57	45.83			
Norway (23)	187.87	1.5	186.95	132.04	177.00	200.33	1.0	1.57	201.12	198.46	132.30	178.67	200.33	187.87	140.16	152.77			
Singapore (45)	331.85	-0.1	330.15	221.34	206.71	242.82	0.1	1.90	332.30	329.59	218.69	226.22	242.18	378.92	233.77	233.78			
South Africa (50)	254.26	2.1	252.96	189.59	227.33	255.89	1.9	2.16	248.23	246.87	183.75	225.15	252.19	250.28	160.78	160.78			
Spain (42)	143.80	0.9	143.08	95.81	128.57	153.04	1.7	3.01	142.45	141.36	95.79	126.59	151.08	155.73	110.37	110.37			
Sweden (36)	215.73	0.8	214.65	143.91	132.91	256.01	1.0	1.48	214.08	212.33	140.83	130.00	255.41	229.02	113.63	126.67			
Switzerland (49)	181.97	1.7	181.13	108.03	144.81	144.79	2.4	1.55	169.23	157.91	104.74	141.46	141.41	176.56	111.01	109.69			
United Kingdom (215)	200.54	0.6	199.51	133.76	179.30	188.61	0.9	3.64	199.28	197.64	133.09	177.56	187.84	214.86	168.46	170.28			
USA (518)	189.04	0.3	188.07	126.08	108.01	188.04	0.3	2.75	188.38	186.83	125.02	107.26	186.38	190.44	179.31	182.65			
EUROPE (748)	167.80	0.5	166.94	111.82	150.03	161.36	1.0	2.83	168.93	165.55	109.81	148.29	159.76	175.58	139.88	141.00			
Africa (113)	205.24	0.8	204.45	139.76	187.36	216.68	1.0	1.24	205.24	205.59	137.03	185.06	214.49	228.00	145.85	152.06			
Pacific Basin (723)	163.53	0.0	162.79	108.14	146.30	113.58	1.1	1.08	163.53	162.79	108.14	146.30	113.58	163.53	108.14	146.30			
Asia-Pacific (1487)	165.21	0.2	164.36	110.19	117.71	132.34	1.1	1.81	164.89	163.33	106.47	146.48	130.96	170.78	124.48	125.26			
North America (625)	155.66	0.3	154.70	123.83	185.99	185.13	0.4	2.78	155.02	153.49	123.71	184.37	184.47	192.73	173.70	178.89			
World Ex. UK (500)	147.02	0.5	146.25	96.06	131.44	138.91	1.0	2.82	146.36	145.14	96.27	130.00	137.48	155.21	120.02	122.66			
Europe Ex. UK (258)	155.66	0.3	154.70	123.83	185.99	185.13	0.4	2.78	155.02	153.49	123.71	184.37	184.47	192.73	173.70	178.89			
World Ex. US (1652)	159.04	0.2	158.78	111.11	148.89	135.59	1.0	1.86	159.04	158.78	111.11	148.89	135.59	159.04	111.11	148.89			
World Ex. UK (1956)	170.43	0.2	169.58	113.67	152.38	147.48	0.9	2.01	170.40	169.03	111.85	161.09	160.84	175.56	141.21	141.81			
World Ex. S. & A. (2110)	172.80	0.2	171.71	115.72	134.23	161.48	0.8	2.07	172.17	170.74	113.25	162.86	160.38	175.56	143.71	144.39			
World Ex. Japan (1770)	185.05	0.4	184.10	123.43	168.49	181.23	0.8	2.75	184.25	182.73	121.20	165.80	180.18	195.20	163.62	164.61			
The World Index (2170)	173.07	0.3	172.18	116.44	154.74	162.33	0.8	2.17	172.80	171.18	113.54	153.34	151.13	178.97	143.74	144.39			

## CREDIT MANAGEMENT

Tuesday March 8 1994

As the UK economy recovers from recession, the need for good credit management is greater than ever.

Increasingly, companies are hiring specialists – and an explosion of IT applications is making their task easier. Richard Gourlay reports

## Debt control takes cash flow strain

Not so long ago, a bank's guarded statement "considered good" and two trade references would have given suppliers sufficient comfort to start shipping goods to new customers.

Credit management was frequently divorced from the sales process. The credit controller was viewed as someone who impeded rather than the supported the sales force. But the economic downturn has put paid to such quaint – and arguably misguided – practices, ushering in a marked change in the way companies manage their credit controls.

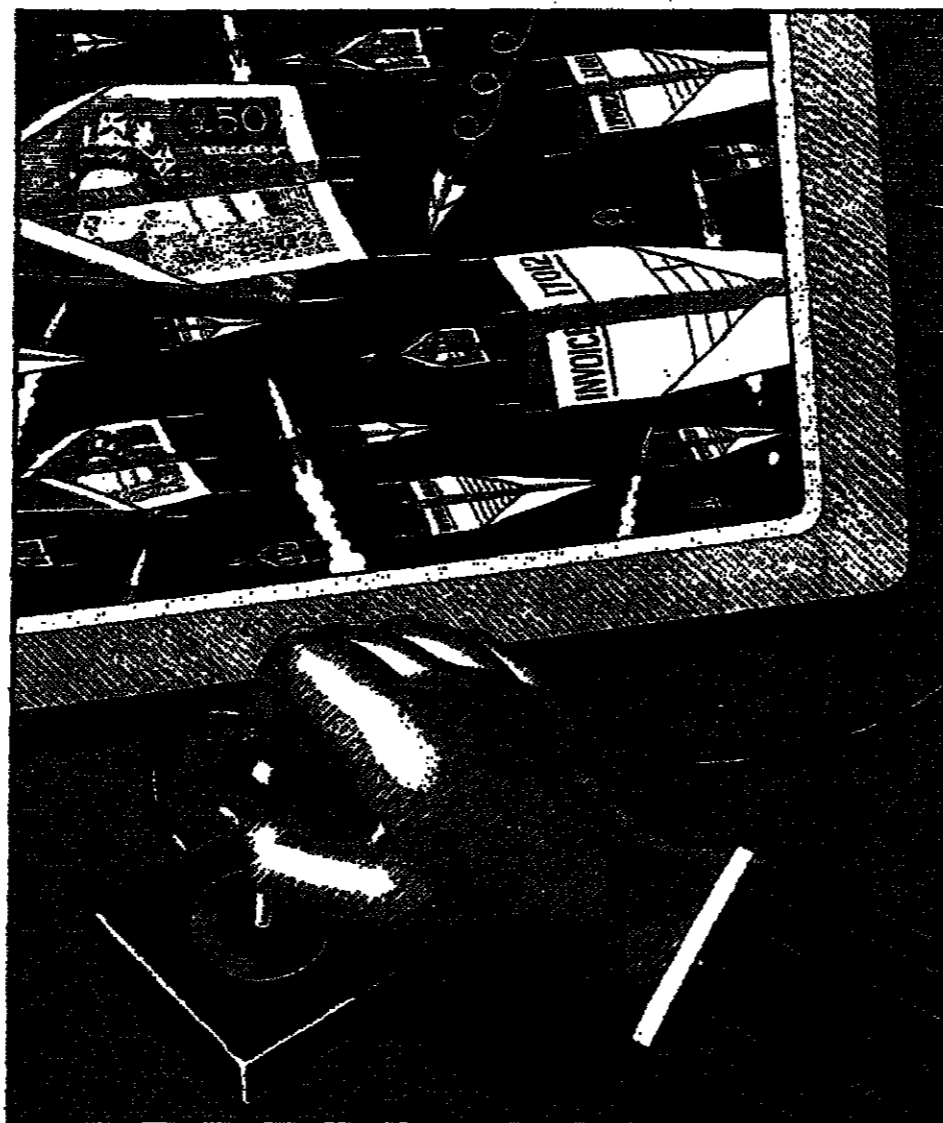
"The recession has seen company margins narrow so they cannot afford either bad debts or very slow repayment," says Trevor Phillips, chairman of the Institute of Credit Management. "There has been a push to bring in more specialist employees to manage risk."

Five years ago the position of credit manager might have been filled by a company secretary, the finance director or even a clerk in the accounts department. But in the last few years there has been a sharp increase in the number of UK companies appointing very senior credit managers, many reporting directly to the board.

Credit managers, both within companies and those who collate and supply reports in the credit information industry, are also increasingly well served by new information technology. "A decade ago the operation was a manual one," says Philip Mellor, senior analyst at Dun & Bradstreet, the leading credit information supplier. "Reports were being typed out and that barred a lot of companies from entering the business-to-business market."

Now companies such as UAPT-Infolink and CCN are using technology to present information in a manner which is breaking down the barriers to better knowledge about customers. The explosion of technology coincides with a withering assault on prices. Dun & Bradstreet and the ICM agree that prices in the last 10 years have halved. Selective services – for example, a search to see if potential customers have any county court judgments against them – can cost as little as \$4, says Phillips.

While Dun & Bradstreet remains the dominant supplier, with about 45 per cent of the business-to-business credit information market in the UK, Infocheck has leapt from



nowhere in little more than a decade to control nearly a fifth of the market.

Others to enter the market include Graydon (owned by leading credit insurance groups NCM, Hermes and Coface), CCN and ICC Information Group.

One way in which companies have tried to combat these price pressures has been to take the expensive keying-in of information to countries which have lower labour costs. A

number of credit information companies have set up operations in the Philippines or Sri Lanka. UAPT-Infolink, a company better known in the consumer credit market, but rapidly growing in the business-to-business market, has recently set up in Harare, Zimbabwe.

However, cutting costs may not be enough. As technology has taken over many of the most repetitive manual functions it is becoming increas-

ingly obvious that there is huge duplication of the industry's raw material: information. Some form of consolidation within the industry would not only make sense, but is likely.

"It is a recognised fact that there are too many players in the market and there will probably be mergers within the next year," says one senior executive of newer credit information company. Many observers of the industry share this

view. Inevitably, attention has focused on what Dun & Bradstreet might do to retake some of the market share it has lost.

But what is the size of the market pool in which the six largest credit providers are fishing?

In spite of the marked increase in demand for professional credit managers and the increase in sales of the leading external credit information providers, there still appears to be a sizeable market to go for. Philip Mellor, of Dun & Bradstreet, says that suppliers only seek credit information for one in 19 transactions before they start to trade.

It is another mark of credit management's lack of penetration that of the 955,000 or so companies which file balance sheets (most of which offer credit terms), considerably less than 10 per cent actually use the services of an independent credit information service.

Trevor Phillips of the ICM says these figures are too low. Many smaller companies take up credit references using their trade organisations or the local chamber of commerce, he says. He estimates that any business with a credit controller will be using external credit references for 60 per cent of accounts where there is exposure of over \$500.

Nevertheless, the ICM and the government have recognised the need for better information. A brochure on credit management called "Making the Cash Flow," published with the UK Department of Trade and Industry last year, sold like hot cakes and is being rushed into a second edition.

But if technology is rapidly bringing down the price of credit information – and turning into something of a commodity product – how are the providers attempting to differentiate their products?

One way is more user-friendly presentation and on-line credit referencing. Some groups are developing specialist knowledge; others are focusing on packaging the information in a more user-friendly manner. And at least one group is making software packages that allow a company's own credit policies to be

mixed with raw credit data on customers to produce credit recommendations.

One of the most exciting developments in the area is CD-ROM technology. According to Dun & Bradstreet's Philip Mellor: "It has really been able to provide the delivery systems and format data in a way people can understand and at a price they can afford."

While falling prices, static profits and overcapacity might suggest an industry with its tail between its legs, the reality is different. One group, Infolink, could well be seeking a stock exchange listing in the near future. The group, which has a number of venture capital companies on its shareholders' list, had hoped to float before 1991 but was thwarted by the recession.

The industry as a whole has also benefited from the debate about whether there should be a statutory right to interest on debts paid late. While remaining agnostic about whether legislation is necessary, credit information suppliers have jumped – rightly – at the opportunity to point out that their services can identify persistent late payers. By arming suppliers with this information before the shipment of goods or provision of services, companies can decide if they really want the business or whether they want to renegotiate payment terms.

Furthermore, the industry might be about to receive a boost from the clearing banks. In a little-publicised move, this month the clearers will change the way in which they give the traditional credit references.

Until now, suppliers have been able to approach their own banks for credit references on potential customers. Sometimes the service has been supplied free, sometimes the cost is included in bank charges. From March 28, the same supplier will have to approach the customer's bank for a reference which will cost over £8. Some may find requesting permission of potential clients to seek references the equivalent of commercial suicide; others may examine what will still be a relatively perfunctory report, and realise

## IN THIS SURVEY

□ The factoring and discounting business is enjoying good times – and support from the Governor of the Bank of England is helping it to throw off its image problem.

□ Ben Allen: profile of the enthusiastic chairman of the Association of British Factors and Discounters.

□ Credit insurance markets: rates vary, but competition is dampening any upward movement and there is a lot of value for money out there.

□ New guidelines on policy: increasing numbers of corporate failures have prompted business organisations to unite in condemning late payments.

□ UK export credit insurance: for want of a government-led co-ordinated approach, UK exporters are losing out.

□ Training has improved, but credit managers can still feel like poor relations when sales colleagues go off on course after course.

□ Technology: the use of IT has permeated almost every stage of the credit management cycle.

□ County court judgments are on a non-profit-making database – and search costs have come down.

□ Late payments debates: the UK minister for small firms and consumer affairs enjoys the thought of embarrassing companies which fail to pay on time.

that credit information suppliers provide a more detailed service for a similar price.

But probably the industry is going to expand its market best by talking more loudly about what credit management can offer a modern manager. "We have a big educational process ahead of us," says Martin Williams, Graydon's commercial director. "People out there do not understand or know what they can get with a credit reference."

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## CREDIT MANAGEMENT II

Factoring and discounting are enjoying good times, writes Richard Gourlay

## Image problem begins to improve

Rarely can the factoring and invoice discounting industry have enjoyed more propitious times. While the banks have been suffering in the recession from criticism that they are not doing enough to support smaller growing businesses, factoring has won an increasingly good hearing.

Most encouraging for an industry that still suffers from an image problem has been support from the Governor of the Bank of England. Factoring, the Governor said in a report earlier this year on the relationship between banks and their customers, was a method of financing that companies should seriously consider as an alternative to the traditional overdraft.

Howard Davies, director-general of the Confederation of British Industry, has added his weight, suggesting that factoring is a method smaller companies should consider to help enhance their performance.

The industry's growth rate, has also been impressive, albeit from a still modest base. According to the Association of British Factors and Discounters, which represents the largest companies in the industry, total sales factored by its members jumped in 1993 by over 23 per cent to £19.68bn.

This followed growth of 12.7 per cent the previous year and a less exciting 2.5 per cent during 1991.

Given the flexibility that factoring and

invoice discounting can offer small and growing companies, it is surprising that at any one time the industry extends only £1.6bn while the banks extend £45bn in overdrafts.

Factoring's share of this financing pie is growing, however. And Ben Allen, chairman of the Association of British Factors and Discounters, thinks the industry is on the verge of take-off. "There is always a great demand for our products as we come out of recession," he says. "People have order books and week balance sheets and consequently need cash flow."

But demand is also growing because of the attitude of the banks. "It appears the banks are finding it more difficult to lend on traditional overdraft terms particularly to small businesses," Mr Allen adds.

Some bankers say this reluctance to supply working capital required to fund growth will persist for some time. They appear to have taken a look at lending and decided they are being asked to provide what is, in effect, equity to undercapitalised companies, in return for which they only receive a loan margin as reward.

Factoring therefore becomes a flexible alternative. For a start, factoring facilities automatically grow as a company's sales grow, unlike an overdraft facility which is usually a fixed amount that can only be increased after lengthy negotiations with the bank.

Ben Allen also believes the industry has "come of age" recently. His view is sup-

ported by Michael Bickers, publisher of an independent annual report on the factoring industry.

"If bodies like the Bank of England are supportive it is bound to help the industry get over the image problem it has had for several years," he says.

Yet the misgivings persist. In some eyes, turning to factoring still suggests an act of desperation from a supplier who cannot find finance elsewhere. Some companies

still refuse to have their invoices discounted or factored for this reason.

Others say the service is expensive. This is more questionable and often based on unfair comparisons. The finance cost of simple factoring at Kellogg, where Allen is managing director, is deliberately set at a rate less than banks charge on overdrafts, he says.

needed to run the debtor book.

Invoice discounting, which is used by larger companies, is marginally more expensive than overdraft, however. This is because the company has to pay for an audit by the invoice discounting company to know the company is running an acceptable standard of credit controls.

Some companies also say factoring can cost more than an overdraft as the facility fee has to be paid on the full debtor book, even if less than that amount is required for part of the time. Factors say that if the facility is frequently under-used fees can be re-negotiated.

In fact it is invoice discounting which is growing quickest. This is partly because it is not necessary to disclose the services being used and partly because more large companies are turning to it.

"Invoice discounting has become the flavour of the decade," says Allen. The market is therefore split between those ABFD members, like UCB and TSB, that do almost nothing but invoice discounting and the rest that offer both factoring and invoice discounting.

Where the industry's potential is least developed is export factoring. Last year this sector grew 36 per cent albeit from a very low level. This trend is particularly welcome to smaller exporters because banks generally do not lend against export receivables. Until recently many factors were also cautious.

One reason demand is increasing is that more continental European companies have been hit by recession and are learning to pay their debts considerably later. But the factoring companies are also improving the way they handle foreign receivables. "In recent years they have managed to construct an effective network of factoring companies around the world," says Bickers.

Most of the factoring companies use a network called Factors Chain International, based in Amsterdam: an association of correspondent factoring companies in the main export markets. Of the ABFD members only international factors, which is owned by Lloyds Bank and is the largest UK factor, is not a member.

Whether export factoring really becomes an option for the smaller exporter depends on whether the banks, which control many of the factoring companies, are prepared to see a bigger challenge to their existing export finance business.

\* Factoring in the UK: available from BCR Publishing, 051 466 6367

Arthur Shaw, the builders' hardware manufacturer, paid the penalty for failing to keep a tight rein on credit management.

The Midlands company, like many others in the construction industry, was forced into losses by "exceptionally high levels" of bad debt which transformed a £267,000 profit into a pre-tax deficit of almost £300,000 in the early 1990s.

Claims of weak management control culminated in a boardroom coup by rebel shareholders, who brought in new executives and strengthened credit controls. The company has since returned to profit, and Mr Lindsay Melvin, finance director, claims its has made great strides in balancing debtors against creditors.

The difficulties of such companies and an increasing number of corporate failures has prompted business organisations to draw up new guidelines on credit management policy.

These organisations, led by the Confederation of British Industry (CBI) representing large groups and the Forum of Private Business acting for smaller companies, are united in condemning late payments. Dr Ian Peters, head of small business at the CBI, says: "Late payments take the lifeblood out of companies - we have to change that."

But the two groups are divided on how best to tackle the problem.

The Forum of Private Business wants the government to introduce legislation to outlaw late payments. Mr Stan Mendham, chief executive, says its 21,000 members want a statutory right to claim interest on overdue invoices. Such punitive additions to late payments, he claims, would offset the costs of extending credit to debtors.

The CBI is opposed to legislation. Instead, it wants more companies to embrace its Prompt Payers Code, which seeks to ensure that payment terms are agreed at the outset of a deal and that they are not

**'The problem is dominant customers holding up payments'**

extended or altered.

Although more than 500 of Britain's largest companies have signed the code - including giants such as British Airways, Marks and Spencer and ICI - Mr Mendham says it is not enough. Concerned that many small businesses are kept waiting by dominant suppliers, the forum has drawn up a "profit builder" check sheet for members trying to reduce late payment costs.

Tim Burt looks at efforts to adopt careful procedures

## Prompt payment is lifeblood



It urges businesses to track late payment trends and calculate the number of days during which it extended credit to late paying customers. Companies are also advised to consider building the cost of credit into their prices or, alternatively, offering discounts to customers able to pay on time.

The check list also includes straightforward recommendations to ensure business survival. These include:

- Having one person responsible for debt collections;
- Establishing a credit worthiness procedure for new customers;
- Implementing a follow-up practice to chase overdue bills.

Mr Mendham says such measures are vital. "More than 80 per cent of our members say this is a critical issue. The problem is dominant customers holding up payments. Nobody dares challenge them - because if they do, they don't get the next order."

Meanwhile, the CBI has established a working party to draw up a new policy on credit management and respond to the Department of Trade and

Industry's consultative document on the problems of commercial debt. The working party will expand the CBI's existing two-pronged strategy of encouraging good payment practice and awareness of credit management techniques.

It is also expected to demand a British Standard for payment practice, but stop short of backing legislation. "You can't have a law just to stop late payments," says Dr Peters. "It

could be seen as interfering in commercial affairs."

He points out that the courts can penalise late payers with additional interest charges, and claims that any statutory rate would have to be fixed at a very high level to dissuade companies from regarding their suppliers as alternative sources of credit.

Faced with differing recommendations and conflicting advice from business organisa-

tions, many companies have turned to credit management training services and factors - usually banks - which undertake to collect debts on the company's behalf and also make an advance to the company of a percentage of the money it is owed.

Such help does not come cheap. For example, one day's training by specialists from Dun & Bradstreet International, the business information group, can cost £1,500. For that, companies have their debt collection techniques minutely scrutinised and new programmes introduced.

Ms Judith de Jong, manager of Dun & Bradstreet's business education services, says a growing number of clients now want their salesforce trained in debt collection. "We are training them to act as collectors as well as sellers. They need to understand the importance of late payments on the balance sheet."

That initiative has been taken up by Griffin Factors, the Midlands Bank subsidiary. It has produced a guide to financial management which

warns sales executives that "a business with the finest product, an excellent sales record and the most efficient workforce will perish if it doesn't get paid". It urges companies to build credit management policies around cash flow forecasts.

Griffin identifies the "debt turn" as one of the most important components of such forecasts. This figure - the number of debtor days outstanding - is calculated by dividing the value of outstanding invoices by total annual sales, and then multiplying by 365. "It can provide early warning of any deterioration in customer payment performance and your cash flow," says Griffin.

**Guides to company credit worthiness come in all shapes and sizes**

The factor also warns suppliers to agree payment terms in advance and check customers credit with their bankers. They offer a guide to banking jargon - this ranges from good references to the awful, usually signalled by the phrase "resources fully committed".

Guides to company credit worthiness come in all shapes and sizes. One of the most up-to-date services is offered by CCN Business Information,

which lays claim to the UK's largest credit and financial information database.

Mr Peter Brooker, director of CCN, says that unlike bank references, it can offer information on a particular executive's track record - a useful resource when there are few other details on a potential customer's profile.

The Leeds-based group also offers on-line details about trading and credit activity of UK companies and a risk index, which calculates a credit score of businesses based on shareholder funds, liquidity and profitability. Such services are "part of the armoury used by credit managers to minimise the risk to their companies", says Mr Brooker.

All the business organisations, however, agree on the point of no return: if all else fails, go to court. Legal action, however, is usually expensive and, fully pursued, may only result in a winding up order against the customer and still no guarantee of payment.

At the CBI, Dr Ian Peters admits: "It's a long costly process and despite assurances from the Lord Chancellor's department, there is no evidence that it's getting better." "The best way to avoid it is to plan ahead. That's the essence of good credit management."

The last three years have seen unprecedented movement in the British credit insurance market.

Despite a string of recession-related claims, capital has been attracted to the sector by liberalisation. Competition is dampening any increase in rates, and improved information technology is helping increased product diversity and sophistication.

According to the The Credit Insurance Association, a broker which is part of the Hogg Group, 23 insurers - including Lloyd's syndicates - are active in the market.

Trade Indemnity (TI), which is owned by nine European insurance companies, is still the market leader with 75 to 80 per cent of domestic credit insurance, but as Ms Barbara Bennett, the company's corporate affairs manager concedes: "There is an awful lot more competition in the UK than we have ever seen before."

Changes in European insurance regulations, especially the approval of the second non-life directive in 1990, allowed European companies such as Coface

of France and Hermes of Germany to underwrite UK risks from their offices on the continent.

But it was the purchase by the Dutch group, NCM Insurance, of the privatised short-term export credit insurance arm of the Export Credits Guarantee Department towards the end of 1991, which paved the way for the most significant EU incursion. NCM has already amassed a market share of between 8 and 10 per cent of the UK market, complementing its established position in the export credit insurance market.

Other new entrants include AMA Underwriting Agents, which accepts business on behalf of the Dutch insurance company, Aegon, and works closely with the Infocheck, a credit rating agency. AMA has been focusing on smaller companies for whom the cost of traditional covers can be prohibitive. Mr Alistair Malcolm of AMA says his company's premium income has risen from about £2m in 1990 to £12m last year.

At a time of increasing

Richard Lapper investigates the UK credit insurance market

## Capacity holds rates down

claims - insolvencies rose from 28,935 in 1990 to 62,767 in 1992 - the influx of new capacity has offset pressures for rates to increase and helped maintain stability. Trade Indemnity increased its rates by about 40 per cent in February 1991.

But rates have barely risen since then. The traditional "whole turnover" policies - in which buyers obtain insurance for specified credit limits for each of their customers - are typically priced at between 0.1 per cent of turnover to 1 per cent of turnover, with the bulk falling between the 0.3 and 0.6 range, depending on the sector in which the buyer operates and the adequacy of their credit management.

At the low risk end of the market are companies in sectors such as advertising, whose customers tend to be dispersed across a wide range of sectors

and who therefore have little concentrated exposure. On the other hand businesses such as timber, construction and furniture tend to be notoriously susceptible to cyclical pressures and there businesses can pay more.

Rates also vary according to other factors such as the dependence of a company on a relatively small number of customers, while insurers have become much more likely to offer lower premiums for customers taking a more active approach to their credit management.

"Rates would have been expected to harden (increase in

insurance jargon) with the substantial claims of 1991, 1992 and 1993, but with NCM and the other companies we have seen the balance change," says Mr Bryan Squibb, marketing director with CIA. "There is a lot of value for money in there."

Johnson & Higgins, the insurance broker, go further in its annual insurance market overview, arguing that "there is evidence that a 'price war' may be beginning in credit insurance."

Moreover, the extra competition combined with the greater sophistication of information, has also stimulated

underwriters to offer a wider range of covers and number of relatively new and more sophisticated products.

"The philosophy has changed," explains Mr Squibb. "Over the last three to four years the buyer has become much more aware of what is possible."

Both the traditional and newer markets are also selling more catastrophe insurance policies - which covers all losses above an excess point or limit higher than those available in traditional policies. These policies are centred around the policy holder's existing in-house credit con-

trols and depend on a complete integration of credit management and credit insurance.

The newer catastrophe type policy is particularly appropriate for larger companies - with turnovers in excess of £100m. Innovations such as the self explanatory "pre-delivery risk" policies and the "multi-market" policies - which provide a combination of export credit and domestic trade credit insurance to companies trading in the UK and most OECD markets - are also becoming more common.

Yet despite this proliferation of policies, the market remains a limited one. In manufacturing a sales ledger can amount to 40 per cent of current assets; while in service industries it can easily be as high as 90 per cent, yet - according to some estimates - only about 15 per cent of eligible turnover is insured.

There are some signs that the market for credit insurance is beginning to increase. Market research by one recent entrant into the UK market indicates that the take-up by British business has increased sharply over the past 18 months, with the numbers of companies buying credit insurance increasing from about 10 per cent in June 1992 to 24 per cent in December 1993. However, other insurers disagree, suggesting that this assessment is over bullish. Ms Bennett says: "It is starting to creep up marginally, possibly as a result of the extra competition."

Mr Squibb says that interest is increasing but that the rise has been offset by the increase in the number of companies who are buying more financial information rather than renewing their credit insurance policies.

Ben Allen, of the Association of British Factors and Discounters

## 'All you had to do was go and shoot the breeze'

If Cilla Black, the pop singer and TV personality, had been in the dating game back in 1966 she might well have been Britain's first man to wed the woman he met through a dating agency. The event was front page news throughout the UK for days.

Ben Allen, now 53, has achieved prominence almost 28 years later for an entirely different reason. He is the enthusiastic voice of factoring: the industry spokesman and new chairman of the Association of British Factors and Discounters (ABFD). Allen is also a founder and managing director of the ABFD's fourth largest factoring firm, Kellogg.

Factoring has been in his blood for almost 25 years, ever since he applied for a job under the misconception that he would be working for tea merchants. "I thought factors were people who bought and sold things," he admits. "My father called himself a leather factor and he bought and sold leather."

Instead, Allen found himself short-listed for a job as financial controller with a small factoring firm, then owned by a tea company. In spite of being unmasked at the final interview, when he quizzed his interviewer on conditions of the tea trade in India, Allen got the job and discovered a new passion.

"Suddenly I was making a big contribution to a company, which is exactly what I had always wanted."

Allen was appointed commercial director to look after new business, at a time

when factoring was not understood. "I thought it was the most wonderful job. All you had to do was go and shoot the breeze with people and tell them about something about which they knew nothing. You could see the scales fall off their eyes, and it worked. I have been doing it ever since."

Allen also learned one of his most valuable lessons at the firm during the recession of the mid 1970s: too much business and too little funding spell disaster for many smaller companies. "I had to get rid of some of the largest clients," he says. "It was a very sad time for a company. That was doing well, to cut back. And, of course, that is the very thing all of our clients find themselves doing when they cannot get the money to go forward." In the end, the business which he had helped to build was sold to Lloyds Bank.

Allen soon struck out on his own. With Nick Oppenheim, the entrepreneur, he set up Kellocks. Oppenheim provided the finance and Allen the "people skills". He is convinced that the reason for the success of Kellocks, which is now owned by the Bank of Scotland, has been in establishing personal relationships with those who have need of his services. In fact, he regards himself as the reincarnation of a now largely extinct breed. "We are the old-fashioned bank manager - someone the client can go and talk to."

Such thoughts form the basis of his philosophy on factoring, which to his constant annoyance is still often



Allen: enthusiastic voice of factoring

referred to as the "finance of last resort".

"It is disappointing to me that over the past 25 years in the business factoring has not been accepted more." He lays some of the blame for this at the door of the factoring industry itself; it may have made mistakes in the early days. "Maybe they took on the wrong clients, or the wrong types of businesses, for example. Factors were learning their own business at that time."

However, there has also been a machismo problem. Business executives in the UK "just don't want to give up control of the ledger", he says.

Finally, factoring has suffered simply

because often it can help those whom everyone else has turned away - "those with weak balance sheets, very weak balance sheets," Allen says. "The walls and strays end up with factors." This does not mean that factoring is an easy answer for a company up against the wall. On the contrary, Allen says: factoring is there to help small companies which may have outgrown the bank overdraft, but are unable to take advantage of other types of finance - companies which may have nothing but a spread of customers.

Yet - like those old-fashioned bank managers on whom Allen is proud to model himself - the factoring industry has been hit by the 21st century. In the last few years invoice discounting (where creditors sell debts at a discount) has rapidly outpaced factoring as the preferred route for companies seeking sales related financing.

Somewhat reluctantly, Allen admits that this is where the future lies. "If anybody wants to be a player today, they must offer invoice discounting." But this sort of financing is not a "people" business, he says disparagingly. "It is much closer to (modern) banking. There is very little service in it."

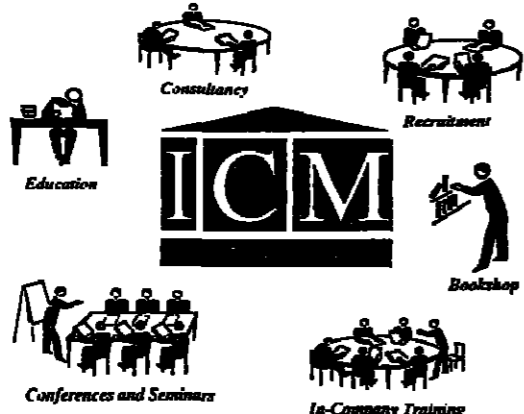
Allen is old-fashioned in other ways, such as enforcing strict standards of dress from his employees (women must wear frocks, for example). But he is not one to pine after the past. Instead he is anxiously looking forward to the future, counting on dizzying growth in the factoring industry before his retirement in 2001. He cites figures which show that last year, ABFD members lent a total of £1.6bn to small and medium sized companies, while collective turnover rose by 23 per cent to £19.6bn.

"Our year is now," he says. "As you come out of recession - when balance sheets are maybe a little bit weaker, when the banks have burnt their fingers because they have lost money - that is when factoring does well."

Peggy Hollinger

## The key to liquidity

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Late payers - watch out, says Peggy Hollinger

## 'I'm keen on the embarrassment factor'

Lord Strathclyde, the youthful minister of state for small firms and consumer affairs, enjoys the thought of embarrassing companies which fail to pay their bills on time.

He is waging his own personal battle against late payers, who have been accused of depriving British companies of more than £50bn in cash through unpaid invoices. If he receives a complaint from a disgruntled supplier, "I will send a letter to the chairman (of the debtor company)," he says. Of course, he adds, the debtor is given a fair hearing. But nevertheless, "I'm keen on the embarrassment factor."

Debate over the solution to late payment is reaching fever pitch, with responses to a consultative document on the subject issued by the Department of Trade and Industry expected by the end of the month. The document followed com-

Failure to settle invoices on time could mean the difference between survival and failure for many UK companies

ments by the UK Chancellor, Kenneth Clarke, in his November budget, that failure to settle invoices on time could mean "the difference between survival and failure" for many UK companies.

Mr Philip Mellor, senior analyst with Dun & Bradstreet, says that in annual surveys by the credit information provider, late payment has consistently ranked in the top three concerns of companies questioned. The Confederation of British Industry also found, in 1991, that one in five of its smaller members thought their survival was threatened by late payment.

But the solution is less than clear. The proposal which sparked the most controversy has been legislation to impose a statutory right to interest on late payments. A survey of almost 500 smaller companies by SG Warburg, the UK brokers, last month, showed that 58 per cent of those questioned favoured legislation. But a substantial minority - 29 per cent - opposed legislation.

The campaign to introduce statutory interest has been backed by prominent names including Lord Alexander,

chairman of National Westminster Bank, and Mr Richard Greenbury, chairman of Marks & Spencer. They have all backed proposals put forward by the Forum of Private Businesses, a vociferous lobby group which has campaigned for legislation for about 10 years. The forum suggests that, among other measures, companies be allowed to claim interest on overdue invoices for up to six years, even if the main debt had been separately collected.

Legislation, say its supporters, would end the uncertainty surrounding payment, which plagues smaller businesses. This is particularly important, as the economy begins to recover, to companies strapped for cash. "We should not allow those smaller companies, without assets to fall back upon, to be penalised by late payment," Mr Mellor says.

The Forum is unperturbed by sceptics who say that companies are unlikely to pursue interest. Legislation with a six-year option would force late payers to make provision for contingent liabilities in their accounts, says Mr David Harrop, of the Forum. This would encourage late payers to improve their performance.

While Lord Strathclyde himself admits that there appears to be a considerable head of steam building up behind this option, the issue must present a difficult dilemma for the Government. How can it increase regulation while preaching deregulation? When should interest charges begin if the standard payment times vary, industry by industry? And how would the already overloaded courts cope with an increase in cases? "Legislation only sounds simple if you say it quickly," says Lord Strathclyde.

Opponents of legislation cite a variety of arguments against the proposal. "Small companies owe money as well as are owed money," says Mr Tim Corbett, business development director of Barclays Commercial Services, the factoring firm. "If they owe money to their suppliers they will be targeted too, and could find themselves on the losing side."

Opponents argue that charging interest may well encourage late payment. Some companies may decide interest provides a legitimate excuse

for not paying and "use the supplier as an alternative source of finance," says Mr Ben Allen, chairman of the Association of British Factors and Discounters (see profile, Page 11).

Then there are those who cite the experience of those European countries such as France and Germany, which have legislation, but where payment times actually appear to be lengthening.

"I do not think legislation will make a blind bit of difference," says Mr John Butterworth, managing director of Royal Bank Invoice Finance, whose parent, the Royal Bank of Scotland, actually supports legislation.

Mr Butterworth suggests that the best option would be to use the existing system, which allows collection of interest through the courts if it has been specified in the

The UK legislation now being proposed would apply the right to interest universally, irrespective of the contract

contract. This is a cumbersome and lengthy process, which few companies use. The legislation being proposed would apply the right to interest universally, irrespective of the contract. "We would like to avoid legislation if possible," says Mr Mellor of Dun & Bradstreet, "but looking at all the voluntary measures that have been put forward to date, none has worked."

Opponents would argue that peer pressure has been effective with some of the UK's largest companies. "GEC was one of the worst offenders and they have been shamed into changing their policies," says Mr Allen of the ABFD.

He favours the DTT's second option - a British Standard on prompt payment, as well as measures to force companies to publish their payment times in the annual accounts.

Need for change is about the only issue on which all parties agree. Yet Lord Strathclyde is wary of even that seemingly simple goal. "However you change the climate of late payment, you must tackle the problem of financial management within companies - in the UK it's appalling."

County court case registrations

## Credit comes to judgment

One of the most effective ways of preventing bad debts from arising is to carry out a thorough check on credit status before granting credit.

Information on the credit status of another company is readily available from the main credit reference agencies such as CCN, Infolink, Dun & Bradstreet and Equifax. The service provided by these agencies has become increasingly sophisticated in recent years, as the information required by businesses trying to assess the risk of lending money, or supplying goods and services, has changed in response to the changing economic environment.

Clients are much more specific about the information they want and what they are prepared to pay for, says David Coates, sales and marketing director of CCN Business Information.

Five years ago most users bought full status reports on companies. These days, Mr Coates adds, the agencies have to break down reports and sell the information in different forms.

The problem of judging the credit status of the 3m-4m businesses in the UK - mainly partnerships and sole traders - on which no audited financial information is available, has proved particularly acute during the recession. It prompted CCN to develop a database for unlimited companies and to begin adapting empirical scoring techniques long used in the consumer credit field, to help evaluate the credit worthiness of businesses.

In addition to looking at an industry sector as a whole, the payment record of a company and any available financial data, an essential element in building up a picture of the creditworthiness of small businesses has been the development of a directors' database.

CCN's directors' database contains information on 6m directors and company secretaries in the UK. With so many business failures during the recession, this information has proved invaluable in helping banks and other companies decide whether to lend or extend credit to start up busi-

nesses where often the only information available on which to make an assessment of the credit risk relates to its directors.

Most agencies now offer their services through on line computer links. This has made checking credit information quick and simple. Furthermore, it has helped to reduce the cost to the end user. CCN charges £25 for a traditional full status report, but for users such as banks (which purchase the information in bulk) the cost of a full status report is discounted to under £10. A directors' database search costs 25 and a search of CCN's unlimited database costs £10. Prices charged by other agencies are comparable.

The credit reference agencies' sources of information are Companies House, newspapers and, quite often with small companies, the company itself. But probably their most important source of information is county court judgments.

Since 1990 most county court judgments are immediately entered on the County Court Register as soon as made by a court.

Entries can be cancelled when a judgment is set aside or reversed or paid in full within one month. Judgments paid in full after one month can be noted on the register as "satisfied". All entries are automatically removed after six years.

Since 1986 the register has been run by Registry Trust Ltd, a non-profit-making company limited by guarantee. The Register is divided into consumer judgments and commercial judgments against businesses.

According to Malcolm Hurston, chairman of Registry Trust, users of the register fall into one of four categories:

- Purchasers of the consumer file;
- Purchasers of the commercial file;
- Purchasers of the file by county or by court;
- Individual inquiries from the public, either by post or in person.

When the Trust took over the running of the register from the Lord Chancellor's Department, it had a database



of 6m pieces of paper and the cost of searching a judgment was 40p each. Through computerisation and the establishment of a dual system for keying-in the data, which has ensured the accuracy of the information stored, the cost of accessing the register has come down substantially. Purchasers of the whole file now pay the equivalent of 16p for each judgment.

Purchasers of the file of commercial judgments - which make up 18.4 per cent of the whole file - pay £54,000 per annum. The commercial file is currently purchased by eight agencies. Purchasers of all the consumer judgments pay £250,000 per annum. There are currently four purchasers of the consumer file.

The number purchasing the information by locality or by court has fallen from a low base of 30 in 1986 to just 8 in 1994. They pay 40p per judgment.

Public inquiries cost £4.50 by post and £4 in person. There were 54,155 public inquiries in 1993, a fall of 11 per cent on the 1992 figure and some way below the peak of almost 70,000 in 1990.

In 1993 there were just over 2m judgments registered or noted as satisfied on the register, a fall of 12 per cent on the 1992 figure - which in turn was a fall on the peak figure of 2.4m in 1991.

The number of commercial judgments registered but unsatisfied on the register in 1993 was 332,355, 16 per cent down on the peak 1992 figure of almost 400,000.

Information on High Court judgments is not available at present but would be useful if it could be accurately collated, says Aidan Breen, operations director of CCN Business Information.

Gathering accurate information on High Court judgments is difficult, says Malcolm Hurston, partly because of the large number of cases which settle out of court with the terms of settlement remaining secret.

At best, any body (such as the Trust) which now undertook to record High Court judgments could only offer an incomplete picture. This would be of doubtful value to the main users of such information: the credit reference agencies.

Irrespective of whether or not accurate information on High Court judgments becomes available in the short term, the scope of the information available to credit reference agencies, and to others who need assistance in deciding whether or not to lend or supply goods and services, is increasing all the time. The register, for example, has been extended in recent years to cover courts in Scotland, Northern Ireland, the Isle of Man and Jersey.

The agencies have begun to collect information on individual and company schemes of voluntary arrangement (CCN will offer an information service on company voluntary arrangements from March 17).

And through organisations such as Internet, a network of the main credit bureaux in Europe, information on the credit status of European companies can now be easily accessed by exporters anywhere within the EU.

All these developments help to make pre-credit checking an increasingly attractive and effective way of preventing the problem of bad debts.

Robert Rice



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## CREDIT MANAGEMENT IV

The UK's approach to export credit insurance seems pretty incoherent, writes Paul Taylor

## Cover can be expensive or not available

For the exporter, winning an order is often just a first step towards making the sale. In addition it is often necessary to arrange financing and, in an uncertain world, export credit insurance.

Export credit insurance provides the means for companies to reduce and manage the risk inherent in exporting - a vital service in a nation such as Britain. As Mr Keith Johnson, export finance manager at Siemens Plessey Systems and chairman of the British Exporters Association, points out, "We are still one of the biggest exporters per capita in the world."

Nevertheless, many of the UK's regular exporters - they number about 40,000, complain that while there have been some improvements, insurance cover is still too expensive or unavailable for some markets.

More pointedly, Mr Johnson claims that British exporters often lose out against their continental counterparts because the UK lacks a coherent government-backed export policy.

As a result, he says, British support for exports is haphazard. It often compares unfavourably with that available to the competition, where the export financing as well as the credit insurance is often provided by state-controlled entities.

"We need a full political commitment to support and sustain exports, and that is the fundamental problem," says

Mr Campbell Dunford, chairman of the London Chamber of Commerce's export committee. "This deficiency is particularly critical in the market for medium and long term credit insurance which, throughout the European Union, is provided by government agencies."

In the UK, the Export Credit Guarantee Department (ECGD) provided insurance to cover about £4bn of "long and large" exports last year - usually for big sales such as shipping or aerospace contracts, or large projects when payment is expected over a two-year period or longer.

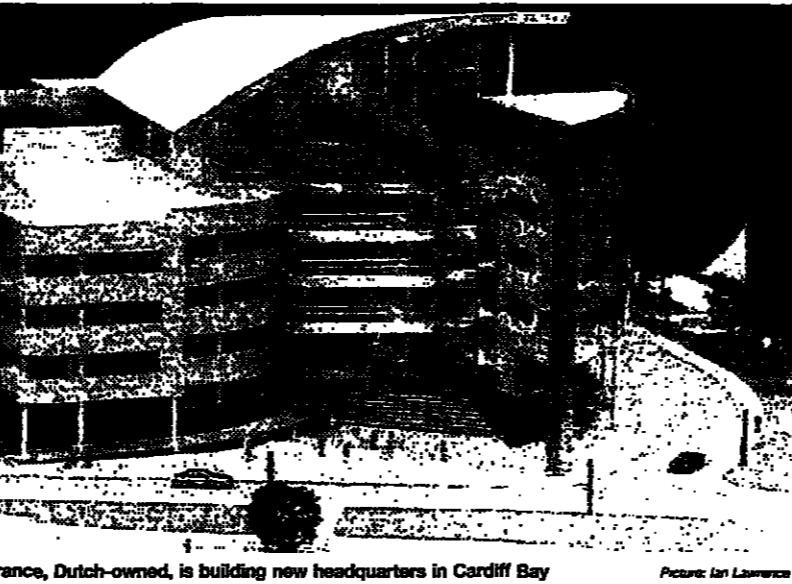
ECGD premium rates have been reduced several times over the past two years, while cover has been increased. In December the UK chancellor announced a reduction in ECGD premium rates in a limited number of markets, including Argentina, India, Mexico, Poland, Slovakia and Turkey, and a £200m increase in export credit insurance cover for capital exports in 1996-97.

But while Mr Dunford says these moves were a step in the right direction and reflect "a gathering awareness" of the importance of exports, he also points out that premium rates

for many markets are still uncompetitive. "We are not asking for anything special," adds Mr Johnson, "just a sense of realism."

Meanwhile UK exporters have discovered common ground with their continental counterparts when it comes to EU proposals for the harmonisation of export credit insurance regimes contained in the so-called Tuffeau report.

In January a delegation led by Mr Johnson, representing exporters from Germany, Holland, Spain, France and the UK, met Commission officials to express their concern over harmonisation plans. These, Mr Johnson said, reflected "introspective activity by EU officials," largely for the convenience of treasuries across Europe which are trying to



NCM Credit Insurance, Dutch-owned, is building new headquarters in Cardiff Bay

reduce their support for exporters.

Following the meeting, EU exporters are optimistic about their chances of forcing amendments to the harmonisation plans - although Commission officials have warned that it will be difficult to change the minds of national governments at this late stage.

One of the main issues is

over the level of cover available from member country export credit agencies. Under the EU proposals, the level of cover provided by the agencies to banks for buyer and supplier credits would be harmonised at 85 per cent of the contract value. However, the EU exporters argue that this would place them at a serious disadvantage against the US

and other competing OECD countries which provide 100 per cent cover. Instead, the exporters argue that the EU should harmonise upwards to 100 per cent, thereby matching international competition.

"Harmonisation must occur at the highest common denominator to ensure that Europe is competitive against the Americans, Japanese

British exporters are also worried about the cost and provision of short term cover - which represents about 85 per cent of all export credit insurance. In the UK the ECGD's short term insurance services were privatised in December 1991, as a result of which two main competing private sector insurance providers have emerged.

The UK market is now mainly divided between the Dutch-owned NCM Credit Insurance, which bought the ECGD's Cardiff-based short-term business and has about 80 per cent of the UK export credit insurance market providing about £15bn of cover annually, and Trade Indemnity (TI), a relative newcomer to the export market.

It is the largest UK domestic credit insurance supplier, but it has also moved into the export market where it provides about £1bn of cover a year. There is "healthy competition" between the two organisations, says Mr James Ball of Dewe Rogerson Europe, who represents NCM.

Generally, the insurers cover exporters against losses up to 90 per cent of the value of invoices where a customer defaults, and up to 95 per cent

if the customer is willing to pay but the country defaults (as Nigeria did in 1983).

Exporters agree that the quality of service since privatisation has improved considerably. Nevertheless, privatisation has meant that the UK, alone in the EU, does not supply state reinsurance support for short term export credit. The government has extended "transitional" cover until the end of 1997, but the lack of permanence has caused uncertainty.

Exporters also argue that the transitional reinsurance arrangements are not flexible enough - which means that, in some notable instances, cover has been unavailable for export orders won in the wake of ministerial export-boosting trips overseas. "There needs to be a much faster mechanism for responding to the needs of the marketplace," says Mr Dunford.

The Treasury expects a 4 per cent increase in exports year on year, but has made no provision for achieving this, complains the outspoken Mr Johnson. "They think it will come from the tooth fairy."

Indeed, although NCM and TI do provide substantial short term export credit insurance, many exporters believe that UK exports to emerging markets such as China would be substantially higher if the supply and cost of credit insurance became easier, and if a more co-ordinated approach was adopted by Government.

Training is a good investment, reports Peter Carty

## Collect it by phone

Credit managers often complain of limited resources allocated to them for training. They feel like poor relations as they see sales colleagues sent off on course after course.

However, there are signs that the situation is improving. "People are starting to realise that it is worth investing in training," says Ms Jill Weymouth, a Bristol-based freelance trainer. But progress is not fast enough for some. "It's changing very, very slowly," says Mr Denis Trought, director of Credit Management Training Ltd, looking back over 16 years in the industry.

At least the recession and its aftermath have increased momentum. Mr Trought has seen steady demand for his courses over the past few years. "There wasn't any slackening off," he says.

At the Institute of Credit Management (ICM), training manager Ms Lesley Haigh has seen a strong rise in underly-

ing demand over the long term.

In the recession she saw bookings drop, but thinks that this was because of large numbers of new trainers entering the market. "There are a lot more players in the field than there were three or four years ago," newcomers include sizeable organisations such as Infocheck, as well as redundant credit managers who have set up as trainers. Shaws Linco Business Training Ltd provides over 250 courses right across the business spectrum. The six in the credit management field are much in demand. "They are our strongest performers," says Ms Amanda Kemp, the marketing manager.

Most trainers report that the most popular courses are in telephone collection techniques. Ms Weymouth sees this area as fundamental. "The telephone is the most practical and effective way of collecting

cash," she says. "Telephone collection techniques do tend to point people in the right direction," agrees Mr Paul Stevenson, credit manager for BASF.

"85 per cent are not doing it right," says Mr Trought, of staff that he has observed before training. Coaching can help employees to prepare properly before making calls and to be polite but assertive.

Asking the right mixture of "closed" questions (answerable with a yes or no) and "open" questions (which require more explanation) is important. "You can probe and question with consumers, debt counselling - as opposed to debt recovery - is increasingly needed. Training is being refocused accordingly."

Mr Stevenson accepts that some staff have natural gifts in this area, but he is sure that training does make a differ-



ence. His confidence stems from the fact that, if collection is monitored, the results of a course are easy to quantify: "You get a virtually instant indication of how well it's gone by the effect on cash flow." The benefits of other kinds of collection courses are similarly easy to evaluate.

As well as collection techniques, risk assessment courses are in demand. Interpretation of financial statements is central here. Mainland Europe is a growing area of interest to companies and bookings for relevant courses are growing. Dun & Bradstreet

has recently launched a new course to help staff analyse the accounts of European businesses.

There is growing enthusiasm among trainers and companies for in-house courses. Experts train company staff on-site. "In-company training has distinct advantages," explains BASF's Paul Stevenson. "It's a method of operation tailored to a company. If you go to an outside course it might not be adapted to your needs." Mr Stevenson says that it becomes viable where the credit management function has more than half a dozen staff.

Mr David Ancliffe, credit manager at Scottish & Newcastle Sales, which supplies beverages to supermarkets and other retail outlets, brings in an external trainer once a year to run a one-day seminar for his 16-member department. This costs about £40 per employee. He says that travel and accommodation costs for external courses would be about £200 a head, with course fees on top.

There are other advantages. Trainers can come into the company in pre-course consultancy to see how employees go about their work, in order to focus later training sessions properly. "We can look at systems, talk to staff confidentially and look at a company's customers," says Denis Trought of Credit Management Training. "We can make the whole thing very personal."

He says that external courses with participants from a range of industries can be problematic. "A couple of people, because of the peculiarities of their business, will have difficulty relating."

Simply sending staff on a course is not the end of the story. Credit managers stress the importance of structured training tailored to employees' individual requirements. "Each person has different needs and proceeds at different speeds," says Ms Ann Stanislawski, credit manager at Hitachi Europe. Her five staff all have personal training programmes.

Two of Ms Stanislawski's team are studying for the ICM professional exams and receive support from the company. She thinks this is important because their present roles are limited and the ICM syllabus will give them wider exposure. "They learn about areas other than trade credit and get a broader education," she says.

Ms Jill Weymouth points to the importance of regular training update courses. In some areas, such as dealing with county courts, rules change quickly. With practical skills such as collection techniques, booster courses can pay dividends.

Employees in companies which are particularly budget conscious might find distance learning a solution. Infocheck launched a correspondence course for a diploma in credit management last year. "We were surprised by the immediate interest," says Mr Ian Sanderson, director of Infocheck's training services. More than 150 students have already enrolled. Mr Sanderson thinks the course material might be particularly useful for staff in small credit departments who may not have other reference material.

Dun & Bradstreet has run a distance learning programme in credit and financial analysis for some time. "Ours has done very well," says Judith de Jong, manager of business education services. Successful completion exempts students from part of the ICM's intermediate syllabus.

Lisa Wood looks at recruitment into the profession

## Demand has recently risen sharply

"Communication skills are probably the greatest asset a credit manager can have," says Mrs Ann Stutz, recruitment service manager at the Institute of Credit Management.

The ICM is the professional body concerned with the credit management function, with membership of the institute recognised by employers as proof of professional knowledge and competence in credit work.

The institute's recruitment bureau, which has been running for 25 years, is one of the institute's commercial arms and offers a complete recruitment package covering all levels of personnel, from credit clerk to board appointments.

The service offers standard or executive search facilities. In the first instance fees are only charged on successful placement. In the second, a fee structure is devised to meet the specific needs of the assignment.

"Employers use the service because of our specialised knowledge of the credit function," says Mrs Stutz. "In addition we are often required to act as a reference point to both employers and employees on salary and benefit related queries."

Mrs Stutz declines to disclose the numbers of people on the bureau's recruitment books, or annual placement rates, but says that demand for credit managers fell during the recession but has risen sharply in recent months, with a 50 per cent increase on the lowest point.

Most of her clients are the bigger companies, but she says many smaller companies are now hiring in-house credit managers because of the need for improved cash-flow.

Traditionally, smaller companies have used debt collection agencies, which may ask for a percentage of the recovered debts. However, if a small company's business is complex and specialist, or has substantial sales abroad, an in-house credit controller is probably the preferred option.

Mrs Stutz says: "It is clear that more enlightened employers have come to realise that efficient credit management can hold the key to greater liquidity. In fact, for the smaller company, it can often make the difference between weathering the recession or financial failure."

So what constitutes the ideal credit controller? Mrs Stutz says that there are three main types of people who are needed in what can be a very demanding job.

● Analytical people who can gather data on customers, make recommendations or take decisions and explain them to others.

● Outgoing people who can establish friendly relationships with customers and sales staff to improve the flow of payments.

● Methodical people who can process payments and handle information rapidly and accurately.

It is useful, she says, for a trained credit manager to have specialist knowledge of financial and strategic planning, legal procedures and insolvency law.

So where do credit controllers work? "Almost anywhere," says Mrs Stutz. She adds that every form of trading company needs a credit department, making sure that the companies it sold to, pay within the agreed time limit. This was "trade" or commercial credit. If credit was granted overseas, it was described as "export" credit. Companies enabling individuals to purchase goods by instalments were in the world of consumer credit.

Moreover, there were companies whose main business was credit - they included finance

The days are gone when the credit function is solely about getting paid

and hire purchase companies, credit card companies, banks, credit insurance companies and credit reference bureaux. Then there were jobs in companies such as collection agencies, which recovered overdue accounts, and with accountants specialising in insolvency matters.

Mrs Stutz says that the days are gone when the credit function is solely about getting paid. The modern credit controller is involved in assessing the risk of doing business with a customer. It is no longer acceptable for sales or marketing personnel, keen for orders and commissions, to pay lip service to a customer's credit worthiness and ability to pay on time.

She says that, in the past, too many companies set inappropriate credit terms, or allowed customers to take action has to be taken. "If we have to do that, I feel we have failed," says Mr Brown. "It means communication has broken down."

Too often, a company would use the credit function as a mopping up exercise when things went wrong. The neces-

sity for legal action was often the result of failure on the part of the company to support efficient credit procedure and allocate adequate human resources. "Wiser companies," she says, have learnt that it should only be used as a useful adjunct to credit management skills, not instead of them.

Mr Ted Brown, vice chairman of the IFM, is head of credit control at Britvic, the soft drinks division of Bass, the brewing and hotel group.

His department works in tandem with the company's sales team, checking out all new customers and keeping in regular contact with existing ones. "We want to supply our products to any customer who wants them, but we have to check on their ability to pay and their willingness to pay within agreed terms," says Mr Brown. Every account is given a credit vetting and a credit line, which can be adjusted depending on circumstances.

The task is large and complex. Britvic has more than 10,000 accounts owing between £40m and £60m at any one time, depending on the time of the year. Customers range from tiny corner shops to the big supermarket chains.

The department employs 70 people. Proof of its increased efficiency shows in the fact that during the past four years it has reduced the average time customers take to pay from 60 days to 40 days. In this it has been assisted by a new computer system that can provide on-line information of customers' debts.

Sometimes all attempts to collect debts fail and there are customers against whom legal action has to be taken. "If we have to do that, I feel we have failed," says Mr Brown. "It means communication has broken down."

Too often, a company would use the credit function as a mopping up exercise when things went wrong. The neces-

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## Information Technology

## Powerhouse capability to deliver

The use of information technology has now permeated almost every stage of the credit management cycle, from application vetting through to litigation.

At the start of the cycle a large number of companies provide on-line assessments of credit worthiness in the trade finance and consumer sectors. Clients are demanding information in more user friendly forms.

For example, UAPT-Infolink has just launched Prophet, a Windows-based package. Data is downloaded on to a client pc from Infolink's mainframes and can then be fully manipulated using the full range of Windows facilities, including graphical interfaces. "We're giving them full remote processing capability," says Mr Kevin Still, Infolink's head of marketing.

**'For our very large customers we can build direct links into our database and give them unlimited access'**

From the mid-1980s the UK's credit information providers started to tie their computer systems into those of important clients. News about a particular customer can be fed straight into a client's database on demand. "For our very large customers we can build direct links into our database and give them unlimited access," says Mr Chris Brooker, distribution and marketing director at Dun & Bradstreet.

Alternatively, rather than providing information on request, credit information on customer files in client databases can be continuously updated. "It's really a question of giving them a seamless system," says Mr David Pearce, director of computer service development at Graydon Ltd, a trade finance information provider.

Scoring systems are one of the most high-profile uses of IT within the credit management function. They are mainly used to vet consumer credit applications - though use in trade finance is growing - with points awarded for key factors such as how long applicants have been in residence at their current addresses, whether spouses are in employment and so on. Fair Isaac developed the technique in the US back in 1958. Other suppliers of score cards are CCM, MDS and Mathtec, with bureau services available from Equifax, Score and UAPT-Infolink.

Building credit score cards is no longer the preserve of external experts. Paragon Business Solutions has been marketing DSS, a pc-based package for in-house score card building, for over two years.

Ms Caroline Hendra, head of personal credit at the Co-op bank, has used DSS to build an application scorecard for a Visa gold card and to predict response for a personal loan product. She also uses external consultants, but is clear on the need for in-house building: "As life becomes more complicated you need to react more quickly." Scorex can also supply building software and SAS Institute Ltd will assist with development tools.

About 10 years after developing credit score carding, Fair Isaac began to aggregate data drawn off customers' files after credit had been granted. The resulting behaviour score cards enable companies to decide, for example, whether to increase a client's credit limit or to renew a facility.

It is only in recent years that behaviour scoring has really taken off, on the back of computers' advances in power and agility. "It has big IT applications," says Mr OD Nelson, senior vice president at Fair Isaac. "There can be 150 characteristics on a rich customer file to bring into a decision making algorithm." About two thirds of bank credit cards now have account details analysed by behaviour scoring.

Mr Ian Arthur, an associate partner with Andersen Consulting, points to the way in which sophisticated relational databases are increasingly built into operational systems, linking and exploiting information across customer files for different credit products. "You can be more focused in the marketing you do," he says. Behaviour scores are combined with other data to assess a customer's likelihood of buying a new product.

Use of expert systems is growing. A scorecard predicts customers' future actions on the basis of past behaviour. Expert systems are built by extracting the rules underlying credit professionals' decisions and building systems that apply them automatically. Use has expanded beyond application vetting to decide, for example, whether to authorise unusually large transactions.

Neural networks are the next stage. Rules built into expert systems can only be changed externally, but neural networks alter them on the basis of experience. According to Mr Darren Wholery, new technology consultant at UAPT-Infolink, neural networks have a slight edge in many applications. The gap widens if there is more data available, particularly if it contains variables with non-linear relationships.

Neural networks are already in use in the US. They are often coupled with more conventional technology in hybrid systems, and are creeping into the UK. "It's only a question of time," says Mr Arthur. UAPT-Infolink is being sponsored by a club of big UK financial institutions, to evaluate neural networks against score cards and expert systems.

The final stage of the credit process is, of course, collection. Systems have been available for this end of the cycle for over 10 years and have been particularly useful in the recession and its aftermath. Cases can be put on a priority list for pursuit, according to rules laid down by users. As part of pre-litigation processes, packages can now help users decide whether to pursue a debt in-house, use an external collection agent or go to the courts. They can issue letters of reminder and warnings before initiating County Court and High Court proceedings.

Sanderson CFL markets two packages in this area. Tally-

**Packages are suitable for clients handling at least 10,000 debtors, such as banks, building societies and utilities**

man deals with arrears and collections, while the wonderfully named Minder (Monitored Integrated Debt Recovery) assists recovery and litigation. "We've done very well out of it," says Sanderson's Ms Sharon McBean, of the latter.

The packages are suitable for clients handling at least 10,000 debtors. Current users include banks, building societies and utilities. Other suppliers of software in this area include Target Computer Group, AST TransAct (part of SHL Systemhouse Europe Group), AIM Law Data and Law Data Systems.

Credit Collection Systems Ltd offers a bureau-type service to companies wanting an in-house collection system without a large capital outlay. "We take care of all the hardware and software," says sales manager Mr Richard Brooks. Users access a central processing installation through terminals, and payment is on the basis of each account put on the system.

Computers can deal with administration of undefended cases, but with defended actions the role of IT in the credit management cycle ends. As Mr Brooks points out, computers cannot yet walk into court and argue a case: "There's no way you can take it that far."

Peter Cartwright

Christine Tighe profiles Nicholas Wilson, the first professor of credit management

## Companies recognise the connection

Professor Nicholas Wilson, the first holder of the Institute of Credit Management's (ICM) newly created chair at Bradford University, has clear objectives.

He seeks to raise the profile of credit management as an academic discipline and as a vital function within companies. His task is to launch an extensive programme of research in credit management, developing its profile in the academic curriculum and professional training and attracting talented young people to work in the area.

To some extent, his appointment last summer was in itself a significant step forward; he believes he is the first professor of credit management not just in the UK but in the world.

The subject draws from various disciplines, including economics, finance and information technology (IT). "My function is to bring them together into a credit management discipline," he says. "It is an exciting area, fairly new, with a lot of developments. It is coming to be seen as a critical function, whether you are talking about a small business or a multinational body."

His own background includes an undergraduate degree in industrial economics, followed by a PhD thesis on participation and profit sharing in British engineering; research fellowships in West Berlin's Wissenschaftszentrum

and at Warwick University; and a nine year stint as a lecturer at Bradford Management Centre in managerial economics. He is now 57.

It may seem a long way from small companies' unglamorous but persistent worries about recalcitrant late payers to Nicholas Wilson's high flying academic career and his ambitious use of powerful computer neural networks to produce predictive modelling tools for credit risk. But companies' initial response to his work suggests that they see the connection.

**He seeks to raise the profile of credit management as an academic discipline and a vital company function**

There has been an excellent response to a research project he recently set up, funded by the Economic and Social Research Council (ESRC), to collect new empirical evidence on small companies' working capital management policy and practices. Of the 100-strong pilot group approached, 35 per cent responded with full information. Astonishingly - or perhaps not, if you are familiar with the preoccupations of small businesses - some respondents said they spend 85 per cent of their time managing cash flow and chasing debts.

"If you look at figures on failure, it's largely because of cash flow problems in the small business sector," says Prof Wilson. "A number of things could help - more prompt payments by larger businesses, better understanding by the banking sector of the difficulties small businesses face, and more training in cash flow management."

Further research launched since his appointment has also found companies willing to co-operate. But he believes there is still a long way to go to achieve his broad aim of raising credit management's status.

"There's an image that the credit manager is somebody who chases debts and that's it - an internal process in the organisation," he says. "But that's far from the truth. Credit managers are business analysts; they're closer to the business than anybody else."

Credit management, he says, should now be part of the structure of an organisation, and should begin before an account is opened. "That is why credit risk modelling has to be more sophisticated, to try to profile risks and understand them." This does not necessarily mean that credit will ultimately be withheld; rather that it is given on a better informed basis.

In some companies the credit management arm is jolly known as the sales prevention team - and yet this

should be far from the case. "It facilitates business rather than preventing it."

In order to produce the more sophisticated predictive tools he has in mind, Prof Wilson is leading research on the modelling of corporate distress and failure, both by devising statistical models and by using neural network computer systems which can predict outcomes, such as credit risk categories, on the basis of recognising patterns in the information fed in. PhD students with backgrounds in mathematics, finance and

**There are plans to build up a sample of 1,000 companies willing to co-operate in an annual monitoring exercise**

accountancy are co-operating on this neural network research, funded by the ESRC. He has also instigated research into trade credit, both as a form of short term financing and a source of competitive advantage - an area of academic study he considers relatively neglected.

The research will examine why and when non-financial sector companies use trade credit, how they establish terms and how they manage these activities.

Initial data is available from companies' own accounting information and from Compa-

nies House, but Prof Wilson plans to begin building up from next month a sample of 1,000 companies willing to co-operate in an annual monitoring exercise which will be sustained over a number of years.

Other research projects include study of the survival and performance of new start-ups in West Yorkshire, and the Working Capital Management study (which unearthed the would-be entrepreneurs who spend 85 per cent of their time on cash flow management).

Research, however, is only one part of Nicholas Wilson's brief. After Easter, the current year's MBA intake at Bradford Management Centre will be able to opt for a module in credit risk management. Out of about 100 students on this year's MBA, at least 15 have so far signed up for the subject.

And from next academic year, undergraduates will be able to include a module in credit management in their courses. Because Bradford's degrees are modular in structure, students from a wide range of disciplines will be able to take this option.

Prof Wilson will also be laying on, at the Bradford Management Centre, short executive courses on techniques and new developments in credit management.

The first of these seminars, aimed at those already working in the field, will be held



Wilson: 'Credit managers are closer to a business than anybody'

for two days in November. Bradford, he says, was an appropriate choice for the ICM chair because the management centre has an excellent reputation both for the quality of its research and for its practical orientation.

The centre's clients include Unilever, Allied Lyons, Rolls-Royce, Ford and the BBC - and Bradford was the first university to establish a chair in Total Quality Management.

The Institute of Credit Management chair has been created initially for five years, at an annual cost of £50,000. A number of sponsors, including 3M, Cork Gully, Dun & Bradstreet, and Infolink, are each contributing £5,000 for the first five years. The ICM hopes that, thereafter, the post will have become so well established that Bradford University will absorb it within its own structure.

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## US COMMUNICATIONS

Tuesday March 8 1994

The US is leading the world into the age of interactive, multi-media communications. Yet some big questions – technological, legal and commercial – need to be resolved before this revolution becomes reality, says Martin Dickson

## A bumpy ride to America's superhighway

The US is in the early stages of a period of profound industrial change as it leads the world into the long-heralded "information age" – where sophisticated new methods of communication will transform the way people live and work.

Behind the upheaval lies a vision: that in the not too distant future offices and homes will be equipped with multi-media terminals which will be able to receive video telephone calls, movies and hundreds of television programmes on demand. They will allow the user to bank or shop while sitting in an armchair, play chess with someone thousands of miles away, or call up information easily from international data bases.

When people are away from their homes and offices, they will be able to stay in touch by carrying lightweight, wireless, pocket-sized video telephones or personal communicators, which combine the functions of telephones, computers and messaging systems.

This vision is hardly new. For more than a decade communications industry analysts have boldly forecast the imminent arrival of the interactive, multi-media information age, only to find that technology could not deliver sufficiently exciting services at sufficiently low cost to attract consumers.

Suddenly, however, this brave new world seems a great

deal closer, thanks largely to technological innovation. Audio, visual and data information can now be transformed into the same digital form and transported in vast quantities around high-capacity fibre optic "trunk roads".

Compression technology permits the large amounts of information to be squeezed down feeder roads into the home. The US is leading this revolution partly because it is the home of many of these technological breakthroughs, partly because of its fiercely aggressive form of capitalism, and the fact it has allowed far more competition into its communications industries than most developed countries, and partly because of its insatiable appetite for filmed entertainment, which is expected to play a crucial part in making multi-media services economic.

But where the US leads, the rest of the developed world is certain to follow – with American multinational companies playing an important role.

For example, large US local telephone groups are already the most important participants in Britain's fast-growing cable television/telephone business, while American Telephone & Telegraph, the largest US long-distance telephone service company and a leading manufacturer of network equipment, aims eventually to



Countrywide connections: AT&T's network operations centre in New Jersey

generate half its revenues from outside the US.

However, some huge questions need to be resolved before the multi-media vision becomes reality in the US, and many fortunes will be won and lost over the next few years placing bets on the correct answers.

The pitfalls were graphically underlined last month when the largest US multi-media alliance yet announced suddenly fell apart.

Bell Atlantic, one of the most innovative local telephone companies, had agreed last autumn to pay up to \$22bn to take over the biggest US cable television company, Tele-Communications Inc., but the deal collapsed because of difficulties in pricing TCI, compounded by cultural differences between the free-wheeling cable company and staid telephone group.

The break-up of the deal underlines that no one is sure what shape the new multi-media industry will take. The digitisation of information means that at least seven industries which were previously separate – some for tech-

nical reasons, others because of regulatory concerns – are converging on the same ground, jostling for position in a world where legal and other barriers to competition are falling fast.

They are: long-distance telephony, local telephone services, cable television, broadcasting, personal computing, wireless communications, and publishing.

The industries best placed to distribute the new multi-media services are two traditionally monopolistic sectors with existing information service wires going into houses and office blocks: the local telephone companies, notably the seven so-called Baby Bell regional operators which were spun off from AT&T in 1984, and the cable television businesses which cover some 60 per cent of US homes.

The electrical supply industry, which has a power line running into every building, is also debating how to take advantage of the revolution.

The local phone and cable companies, after spending years eyeing each other as potential enemies, have now

started joining forces – and invading the territory of rival local phone companies.

Competition is also being created by the entry of new participants to the local telephone market: AT&T, the largest long-distance carrier, is buying McCaw Cellular, the largest non-Bell cellular telephone company. MCI Communications, the second largest long-distance carrier, recently announced plans to break into the local market, in conjunction with various unnamed partners.

Sprint, the third largest long-distance carrier, already owns local monopoly phone businesses and cellular operations. And the Baby Bells, for their part, want to be allowed to enter the long-distance telephone market, from which they are barred. Legislation on both this, and the opening up of the local market, is before Congress.

The proposed new order would increase the powers and responsibilities of the Federal Communications Commission, the national government agency which oversees the sec-

tor, to arbitrate between these clashing interests.

The Bell Atlantic-TCI deal was the most dramatic engagement between local telephony and cable and its collapse means the two industries could now move much more cautiously in forming alliances.

Deals that may prove more typical are a 50 per cent investment by Baby Bell US West in the cable and entertainment business of Time Warner, or the takeover by telephone companies of relatively small cable operators.

Alongside this horizontal integration between local distributors, a degree of vertical integration is also under way as telephone and cable service companies forge links with programme makers, such as cable television networks, and with programme originators, such as Hollywood film studios.

These forces have been seen most clearly in the \$10bn takeover battle for Paramount Communications, the film production and book publishing group.

On one side stood the ultimate victor, Viacom,

primarily an originator and packager of cable television entertainment, with financial backing from Nynex, the Baby Bell serving the north-east US, and Blockbuster Entertainment, the video retail chain. On the other side was QVC Network, a cable home shopping channel, backed by BellSouth, the largest Baby Bell, as well as Comcast, a cable distributor, and publishing groups Cox Enterprises and Advance Publications.

There are some sharp differences of opinion within the converging industries as to how much vertical integration is necessary. Some protagonists argue that the distributors do not need to have a stake in high-priced programming assets.

Others maintain that since no one knows how the industry will shake down, it is a sensible precaution for them to have an interest in the sector. At the very least, it gives them access to a core of entertainment to fill their channels, and possibly a better bargaining position when buying programming from outside.

An even more important question is how quickly customer demand will develop for multi-media, and that depends partly on how cheaply the services are priced and partly on making them easily accessible. The many millions of people who have difficulty programming a video cassette recorder will need a great deal of help navigating the information highway.

Demand for multi-media is likely to develop at different times in different markets. Mr Robert Ranalli, head of multi-media at AT&T, thinks there are "tremendous opportunities over the next three to five years" in the market for large to medium-sized businesses, where networking will allow desktop collaboration – that is, staff in different locations working together to manipulate data, while simultaneously holding video telephone conversations.

Interactive multi-media in the home and small businesses may take rather longer to take off as a mass market service – some analysts suggest it may be a decade or more away – but various popular forms of entertainment, notably movies-

### IN THIS SURVEY



US West worker receives training in the field

- ☐ Three aspects concerning the future position of the seven regional Bell operating companies are analysed:
- ☐ Regulation
- ☐ Technology
- ☐ Overseas expansion

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- ☐ Long-distance cable competition for connections gets fiercer
- ☐ PC competitors are on their marks for a tough technology contest
- ☐ The collapse of the Bell Atlantic-TCI merger is seen as good news for the 'little guy'

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- ☐ Although personal digital assistants have not yet caught on, the next generation of these hand-held devices may capture the imagination of the public
- ☐ The buzzword of the US high-technology industry is convergence
- ☐ Driving a superhighway into the home will turn couch potatoes into couch commanders

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Editorial production: Roy Terry

on-demand, are expected to win converts much more quickly.

"Cost is a problem," says Mr Ranalli. "The home market will evolve more slowly because of that. It will take five to 10 years for the price/performance of the technology to reach the TV set."

But after many false starts, the information age is finally dawning in America.

### CREATIVE MEDIA

## Where content will be king

In the world of interactive, multi-media entertainment, content will be king.

That, at least, is the current conventional wisdom, which argues that in an age when households will have access to a vast array of information on demand, some of the most profitable businesses will be those creating popular, original entertainment and information services.

In other words, the hardware binding together the information superhighway will be nothing without the software which encourages consumers to take a trip on the highway.

Certainly, the coming of the multi-media age presents big opportunities and huge challenges for the creative industries of film and television production, publishing, video games, and advertising.

The important role film and television programmes are expected to play in the new era has been underlined by the recent \$10bn takeover battle for Paramount Communications, owner of the Hollywood studio Paramount Pictures.

The battle was won by cable television company Viacom, creator of the MTV pop video music channel, which defeated QVC, the television shopping network headed by Mr Barry Diller, a leading Hollywood executive who wanted to use Paramount to build a multi-media empire.

Paramount was sold for more than most Wall Street analysts thought it was worth because both bidders were gambling that the price of scarce Hollywood assets will rise in a multi-media age as the demand for good film and television content outstrips supply.

At the same time, the increasingly global nature of the entertainment industry – with satellites beaming shows to homes across Europe and Asia – offers new profit opportunities to film producers. According to Veronis, Suhler, a New York investment bank, Hollywood's international sales will make up just over 50 per cent of the total by 1997, compared to 38 per cent in 1987.

But while the film and television industry's multi-media future looks reasonably bright, there are large question marks.

First, some analysts suggest that the interactive era may simply shift consumption patterns – for example, from renting videos to pay-per-view TV films – rather than increase the number of hours people spend watching movies and films.

Second, the creation of the information superhighway could remove some of the power of the large Hollywood studios. In a world of potentially limitless television channels, low budget programmers, making use of cheap digital production and editing tools, could take precise aim at market niches, fragmenting the general TV audience.

A forerunner of this move from broadcasting to "narrow-casting" already exists today in the US. Cable television, which has mushroomed over the past decade and

a half, and now reaches 60 per cent of American homes, offers viewers several dozen channels, including niche networks devoted to country music and sports.

Cable has cut the audience for conventional, broadcast television channels – NBC, ABC and CBS, together with the more recent Fox system – from around 90 per cent of viewership at the start of the 1970s to a little over 60 per cent now.

The conventional broadcast networks are likely to suffer a further erosion of their audience as fibre-optics allow many more narrowcast channels to be pumped into the home, and as programmes are stored on servers which allow the viewer to summon up programmes when they want them, rather than being bound to a broadcaster's "prime-time" schedule.

But while the future may be tough for the networks, they seem unlikely to disappear altogether. Mr Michael Eisner, chairman of Walt Disney, argues that "networks will continue to be an integral part of television because consumers want quality, structure, familiarity... many consumers will still want the networks to make their viewing choices for them."

Despite industry talk of a 500-channel future, Mr Eisner argues that there will be only 10 or so "great channels" (whether their origins are in cable or broadcasting) which earn nationwide or local recognition and affection.

However, the economics of the networks

may have to change dramatically, since most of them rely for their profitability on advertising revenues. But in an interactive world viewers may be even less prepared than now to sit through repeated showings of advertisements, breaking up their TV shows.

Advertisers, for their part, are already shifting their campaigns from broadcasting to narrowcasting, focusing much more precisely on the target audience they want to reach.

For example, a newly-launched cable television channel, ESPN2, which covers sports popular among the young, such as snowboarding, allows advertisers to target sportsy young males. But the multi-media age will also mean huge changes for the advertising industry. Some of the largest consumer advertisers say the growth of narrowcasting means an end to the conventional strategy of running a few mass-market, big budget commercials a year. They now need to create many, cheaper advertisements in different styles and moods for different audiences.

Many new advertising opportunities are also opening up. There is expected to be strong growth in "infomercials" – programmes which a viewer can summon up to get information about a product.

As interactivity develops, these could allow a potential car buyer to interrogate his TV screen about options on a vehicle and even book a test drive, with a salesman delivering the car to his home.

At this point advertising blends into television home shopping, an industry which is still in its infancy. At present, home shopping viewers have to pick up a telephone to order an item they want, rather than simply pressing a combination of buttons on a television remote control.

They are also bound to the shopping channels' programming schedules, rather than being free to browse through televised catalogues when they want. But as interactivity develops, television home shopping could displace much of the conventional printed catalogue shopping industry and some conventional retailing. Traditional advertising agencies could lose out if they do not react quickly enough to this rapidly changing world. For example, new rivals, some drawn from the world of television programming, are already experimenting with interactive advertisements.

But whatever the delivery method, the multi-media era will certainly not mean the end of the advertising industry; merely its rebirth in a new and potentially even more potent form, targeted closely at the individual viewer.

As Mr Michael Schrage, an authority on the future of US media, points out: "There will be billboards along the information superhighway."



Communications satellite lifts off into space

Martin Dickson

Martin Dickson looks at the complicated regulatory maze on the US highway

## Roadblocks hinder free flow

A great number of road blocks need to be removed before the information superhighway stretches unhindered across the US.

At present, an immensely complicated regulatory and legal maze restricts competition between the various industries trying to secure a place on the highway. And the federal government has to establish public policy goals to ensure reasonable access to the network for all Americans.

The central difficulty is that the framework governing America's communications industries reflects a world which in many respects is becoming anachronistic – where telephone lines were scarce resources and the industry was viewed as a "natural monopoly".

For much of the past century that monopoly was embodied in American Telephone & Telegraph, which provided local telephone services across much of the US (though other phone companies, notably GTE, provide services in a patchwork of other regions) and linked the nation together with its own long-distance service.

This settled framework began to change in the late 1960s and early 1970s when a small, upstart phone company called MCI Communications began to challenge AT&T's hold on the long-distance market.

The conflict that developed between them played a large part in prompting an anti-trust investigation of AT&T which in 1984 led to the court-ordered break-up of the group. AT&T was required to spin off its local operations into seven separate "Baby Bell" companies. Fearing that these would use their monopoly profits to compete unfairly in other markets, the court banned them from the long-distance market, the manufacture of equipment and information services.

This left AT&T with its long distance business, which had to compete against rivals such as MCI on a much more level playing field; its Bell Laboratories research arm; and its equipment manufacturing operations.

In 1991, the Baby Bells managed to get the courts to lift the ban on them providing information services. However, they – and every other telephone company – remain barred under 1984 legislation from owning and delivering a cable television service in the area where they operate a conventional telephone service.

The cable companies, which are regulated by some state agencies and many municipal franchising authorities, have thus been able to remain *de facto* monopolies until now.

Over the past few years market forces and technological change have begun battling at this 1984 framework. State and

federal regulators have allowed small, nimble rivals to cream off a little of the Baby Bells' business traffic, and MCI is now threatening to enter this area and bring to the local market the same competition it introduced into long distance. Cable television companies are also threatening to provide alternative telephone services to domestic customers.

The Baby Bells, for their part, are getting into the cable business. In a landmark court case, Bell Atlantic last year won the right to compete against cable companies in its own operating area, after successfully arguing that the 1984 cable act infringed its right to free speech. Several other Baby Bells now have similar cases pending before the courts.

The Bell companies are also redoubling their long-time campaign to be allowed into the long-distance market. Ameritech, the Chicago-based local operator, is making this a *quid pro quo* for it opening up

**One important issue is how to fulfil a commitment to "universal service" – allowing anyone to have a telephone service in their home at reasonable cost, no matter how remote their location – which has been embodied in US legislation since the landmark Communications Act of 1934**

its entire network in the state of Illinois to competition.

BellSouth is arguing before the courts that AT&T should not be allowed to complete its \$12bn takeover of McCaw Cellular – the largest cellular phone operator in the US, and a wireless competitor to many Baby Bells – until the Bell companies are allowed to compete in long-distance and equipment manufacturing.

However, this sniping on multiple fronts may be subsumed this year by comprehensive legislation now before Congress, which has the broad backing of the Clinton White House, though it may propose some modification to the two bills.

Vice-President Al Gore, a long-time expert on telecommunications matters, has made the creation of the "information superhighway" an important plank of government policy.

The administration does not intend to finance this itself, but it wants to clear away the road blocks to private sector investment.

One bill, the so-called Markey/Fields legislation, would give new competitors, including the cable operators, the right to compete with local telephone companies and use their facilities on a non-discriminatory basis to interconnect with consumers.

In return, the phone companies would be free to set up video services in competition with cable, though they would still be barred from buying local cable operators. The aim here would be to preserve two suppliers of multi-media services, rather than creating one new and yet more powerful local monopoly in each area.

The second bill, the so-called Brooks/Dingell legislation, would allow the Baby Bells to escape their chains and enter the manufacturing industry after a one-year wait and the long-distance market after five years.

But while most interested parties are agreed that this is a sensible, broad framework for legislation, there are going to be many fierce battles over the fine print, as the protagonists fight for advantage.

One important issue is how to fulfil a commitment to "universal service" – allowing anyone to have a phone service in their home at reasonable cost, no matter how remote their location – which has been embodied in US legislation since the landmark Communications Act of 1934.

The local telephone companies have achieved this by subsidising their long-distance services with their local service rates, which have been kept artificially low.

There is general agreement that a mechanism has to be found which ensures that all providers of basic services share proportionately in the cost of subsidies. MCI, for example, has suggested that each carrier should contribute a percentage of its total telecommunications transmission and switching revenue. The money would be pooled and administered by an independent third party, which would allow customers to "spend" their universal service benefit with the local service provider of their choice.

But even defining what should constitute universal service in an interactive multi-media age could prove troublesome. Simply limiting it to a basic phone service would risk turning densely populated urban areas into information "haves" and rural areas into "have nots".

Yet until it becomes clearer what consumer demand really exists for the new services, it will be hard to decide what should be universally available. And these ideas are bound to change as services yet undreamt-of are added to the system.

## US COMMUNICATIONS 2

Andrew Adonis looks at the seven regional Bell operating companies whose monopolies are under threat

## Baby Bells take action after storm warning

The US Baby Bell operators are like the man who has just heard a hurricane warning. It could destroy his house and life, but, on the other hand, it might go off in a completely different direction. Either way, he is stunned, dreads the worst, and takes frenzied defensive action.

For the seven local Bell operators, the hurricane warning is the effective abolition of their local monopolies, which is advancing much faster than almost anyone believed possible barely a year ago. At one extreme, the upshot could

be the end of the Baby Bell system, as it currently exists, with two or three vast multi-media companies dominating local telecoms delivery across the US.

At the other, a modified, somewhat more competitive, version of the status quo could last for years yet.

Because of this, the Baby Bells are in a hyper-active state, dashing

about in all directions in a bid to secure their valuable goods and chattels from destruction. Some are sending a large part of their possessions abroad. Almost all are seeking to lash themselves to cable or entertainment companies, the better to master the storm. Everyone is hoping to compete in the telecoms business in new regions of the US.

To gauge the industry's state of mind you need only compare the extreme reactions. "The changes coming will dwarf the break up of the Bell system a decade ago. We're going to have a few large companies, probably in the form of consortia," said Mr Richard Notebaert, vice-chairman of Ameritech, which covers 12m subscribers in the Midwest. Mr

Jeff Rubin, chief finance officer of Nynex, which covers the north-east, is gazing at a different crystal ball: "The world will be much less different in ten years time than many think - it'll be like the airline industry, where everyone has gone down different highways and byways but still ended up in roughly the same business."

The collapse last month of the \$21.4bn merger between Bell Atlantic, the largest Regional Bell Operating Company (RBOC), by access lines, and TCI, the largest cable television operator, gives succour to Mr Rubin. But even he went on to predict that 10 years hence Nynex could be drawing "between a quarter and a half" of its revenues from overseas

operations. At the very least, the Baby Bells are going to be doing "same business" on a far broader canvas than now. The RBOCs face a threefold challenge: regulatory reform at home; technological advance, bringing new media (such as cellular and broadband) on stream and promoting convergence between the existing media of telecoms, computing and entertainment; and international liberalisation, opening up the world to US telecoms operators of all kinds as never before.

### REGULATION

## Legislation may end easy life

The Regional Bell Operating Companies (RBOCs) have lived a fairly sheltered first decade. Hived off from AT&T upon the divestiture of "Ma Bell" in 1984, they retained their local monopolies while AT&T slugged it out in the long-distance market with MCI, Sprint and others. Benefiting from generous access payments from the long-distance carriers on the one hand, and guaranteed minimum rates of return by state regulators on the other, they have had an easy and affluent decade.

Some have had it better than others, depending largely on the relationship with their local state regulators. But none has faced competitive challenges on a par with AT&T in the long-distance market.

That looks set to change. Legislation now before Congress, which appears likely to pass into law, would repeal the cable-telephone cross-ownership rules, allow the RBOCs to compete in the long-distance market, pre-empt state laws that prohibit entry into local telephone networks (so that local phone competition becomes federal policy), and compel the RBOCs and other local operators - of which there are more than 1,000, most

of them tiny - to provide newcomers with equal access to, and inter-connection with, their networks.

For the RBOCs the key legislation is the Market-Fields Bill covering local access, which would enforce local competition, allow RBOCs to buy cable systems outside their areas and upgrade them for telephony, while banning them from buying cable systems within their service areas. They would, however, be allowed to upgrade their exist-

**In the past few months virtually all the Baby Bells have announced large investment programmes**

ing networks to offer broadband services - very likely in competition with another broadband local operator.

Assuming that the legislation passes, the RBOCs are more or less obliged to pursue three policies. First, to upgrade their existing networks to offer broadband services. Second, to enter into partnerships with cable companies to offer broadband services elsewhere. And third, to cut costs as fast as possible, since however

friendly their existing state regulators may be, they will need to be lean and fit for the competition around the corner.

Accordingly, in the past few months virtually all the RBOCs have announced large investment programmes, swingeing job cuts (70,000 jobs have gone in the last year), and deals - accomplished or prospective - with cable and/or entertainment companies to develop broadband. Even as it announced the breakdown of its TCI venture, Bell Atlantic stressed its continued commitment to cable alliances working to the same end.

It is not enough to build alliances. A complex process of cable franchise dealing will also be necessary because of the patchwork nature of existing cable operations. Los Angeles alone has 40 cable companies while Chicago has 115 franchises. Says Mr Tim Brian, a planning director at Jones Cable, a cable operator covering 2m homes: "Almost our entire strategy is to

expand, to exchange franchises and to achieve rationality and critical mass by clustering our networks."

Take US West, the Denver-based RBOC covering 14 western states. Last month the company announced plans to build a fibre and coaxial network at the rate of 500,000 customers a year from next year. Company strategists insist the investment is not just about broadband. It would be needed in any case to increase network flexibility and the services offered to traditional phone customers.

Last year US West bought 25 per cent of Time Warner Entertainment for \$2.5bn in a complex deal that will enable Time Warner, the second largest cable operator after TCI, to upgrade its existing systems and give US West the opening to export its telecoms know-how to sizeable networks in 15 cities (against the six in which US West currently operates). Significantly, it is Time Warner's cable networks, not

its entertainment wares, that US West wanted most urgently. The RBOCs' first priority is to go for each other's core business and that of the cable companies not allied to them, although in the process they will be building networks able to carry a new range of services. Says Mr Chuck Lillis, US West's chief planning officer: "The Time Warner deal is essentially about giving us more networks. Of course, they've also got the best studios in the country, and the longer you go out in time, the more it is about having access to their programming and products."

However, the regulatory changes are as much evolutionary as revolutionary. For all the RBOCs, competition is already a fact of life in the business market because of the activities, permitted in most states, of "competitive access providers" (CAPs) who offer direct fibre links to the long-distance carriers for larger businesses in cities.

Ameritech, for one, insists that nearly half of its revenue is already subject to competition. MFS, the most aggressive and successful of the CAPs, provides a local fibre service to businesses in 14 cities and has plans to move into another nine soon. Its ambitions do not stop there. It has just started a switched local exchange service in New York, which it expects to extend to all of its US networks later this year.

"We're not content with being a CAP," says Mr Royce Holland, MFS president. "We want to be co-carriers with the RBOCs, serving all businesses - and we intend to be in 60 to 65 cities in the US within three years." MFS competes on price and quality, with the second often the more important. "In our most successful markets - New York, Chicago and Washington - high capacity private circuits are often being sold below cost at the moment," claims Mr Holland. "But our reliability makes us attractive to businesses that can't afford

delays and failures."

The RBOCs have not been slow to take up the CAP challenge. Mr Richard Jalkut, chief executive of Nynex's New York operations, estimates that the CAPs have taken about 60 per cent of his New York private-line business. "They have turned us upside down," he concedes. "We are doing things now which we had convinced ourselves three or four years ago were impossible." These include the provision of 1.5 Mbit circuits within 24 hours,

**In 1973, New York Telephone had 125,000 employees. Now it has 39,000 and there will be 30,000 in five years**

which a few years ago used to take Nynex six months. "It has cost us a lot of revenue, because we have had to bypass ourselves in the dial-tone (public switched service) business, but the market is growing at an incredible rate and we are holding our own with new products."

Nynex has been a notably innovative operator in terms of products. In 1992, the New York business launched a proprietary software product -

Enterprise - giving businesses direct control over their own network construction. Mr Jalkut claims it has started to reverse the loss of market share to the CAPs. It is taking the same approach to the residential market, ahead of competition. Last year it was the first RBOC to launch a voice-dialling service, and has a host of new services up its sleeve.

As for costs, back in 1973 New York Telephone had 125,000 employees. Now it has 39,000 and there will be 30,000 in five years. "It's no longer a question of what the regulator will let you get away with on your cost base," says Mr Jalkut. "It's what your competitors' costs are. Unless you can beat them, you're sunk."

Another element must be added to the equation - the entry of the long-distance carriers to the local business, from which they were excluded a decade ago. MCI, the second largest, has already jumped in with an announcement of a \$30bn investment over six years to build local networks. AT&T is also there already, through its purchase last year of McCaw Cellular, one of the largest mobile operators, which it is rapidly integrating into its mainstream service offerings.

### TECHNOLOGY

## The stuff of science fiction

"It's the stuff you read about in science fiction," runs the voice-over in Bell Atlantic's latest television ads. At the RBOCs are talking excitedly about convergence, broadband and multi-media, and rubbishing the plain old telephones (pots) as relics about to hit the scrapheap.

It is important to distinguish two different processes at work: regulatory changes allowing companies to offer services over their systems that other people were offering before; and the construction of broadband networks bringing new inter-active services on stream. The two get blurred, since the first process inevitably requires some network upgrading. But allowing telephone companies to start supplying cable TV, and vice versa, provides only a small number of consumers with ser-

The seven regional Bell companies

	Access lines	Operating revenues (\$bn)
Bell Atlantic Philadelphia, Pennsylvania	18.181m	10.943
BellSouth Atlanta, Georgia	18.109m	12.412
Ameritech Chicago, Illinois	17.001m	9.799
Nynex New York, NY	15.899m	11.540
Pacific Telesis San Francisco	14.551m	8.910
US West Communications Englewood, Colorado	13.345m	8.324
Southwestern Bell San Antonio, Texas	12.603m	7.759

1 As at December 31, 1992; 2 1992

Source: US Telephone Association

vices they could not procure before.

In reality, however, the upgrading planned by the RBOCs will take them far beyond the stage necessary to offer cable TV. Indeed, only one of the RBOCs - Bell Atlan-

tic - appears to be seriously experimenting with technology that would simply upgrade existing copper wire to carry video and even that company's executives privately concede that it is no more than a transitional technology. The vogue is for full broadband networks, which appears in most cases to mean fibre to the kerb and coaxial cable into the home.

The sums about to be spent on network upgrading are colossal. By one estimate, US telecoms operators are planning to spend around \$20bn a year between them. But when it comes to identifying the new services, the picture becomes more fuzzy, once you get past video-on-demand and still more cable channels.

Shopping and travel services are the most popular candidates for the first explosion of new inter-active services. Says Mr Raymond Smith, chairman

of Bell Atlantic: "1994 and 1995 will see the first transactional shopping services - there's already a \$55bn catalogue shopping business, and the market could grow like wild." Health and educational uses also feature prominently in the rhetoric, though estimates of how fast the market will develop vary wildly. State by state a plethora of on-line educational services have sprung up, and in the bid to present themselves as friends of universal service without the need for unwieldy regulation, most of the RBOCs are promising Congress they will provide free or reduced-rate broadband connections for educational institutions.

Mr Bob Fuhrer, head of US West's multimedia group, highlights four sources of revenue as critical for the new broadband operators: entertainment, communications, shopping and games. "It's on the information services side that there's a weak link," he said. "We are still searching for the anchor information services that will attract the market."

All of the RBOCs have broadband experiments past, present or future. Accounts conflict, but all agree that the more starry-eyed projections of an explosion in demand for new services are off-beam: new services will depend upon getting the services to market at prices much lower than those generally envisaged.

The RBOCs are also grappling with the issue of univer-



Splicing the cables: a Nynex technician at work in New York. Photo: John Ours

sal service for broadband - Vice-President Al Gore's insistence that there should not be information haves and have-nots in the superhighway world. Every operator has its own solution, and it is becoming one of the most contentious issues in Congressional deliberations about broadband and regulatory reform.

More immediate than broadband, however, is a further competitive flurry in the cellular mobile business. The Federal Communications Commission is set to auction more than 400 licences for Personal Communications Services (PCS) next year, and competi-

tion for the licences will be intense. RBOCs will be limited in their capacity to bid for licences in areas where they already have cellular operations, but there are no such limits on licences covering new areas.

A rush is on to form bidding and operating consortia. One RBOC - San Francisco-based Pacific Telesis - has even split itself into two, moving its cellular activities into a separate operator which is about to be spun off into an entirely separate company. That way it hopes to maximise its value and increase its bidding potential.

### OVERSEAS EXPANSION

## Eyes on investments abroad

Privatisation and liberalisation are advancing across the world. They are moving fastest in cellular mobile services, which are ready provided on a competitive basis in most of Europe and much of Asia but they are extending rapidly to fixed-wire services. The RBOCs are exploiting opportunities in both fields.

Again, there is no uniform picture. "Our overseas strategy is a privatisation strategy," says Mr Andres Bande, president of Ameritech's international division. By contrast, Mr Dick Callahan, president of US West International, who is actually based in London, stresses: "We emphatically do not have a privatisation strat-

egy. Ours is based above all on wireless and cable local networks." Nynex's Mr Rubin splits the difference: "We are looking at all opportunities, and certainly don't want to get typecast as providers of only one or two types of service."

The Baby Bells' existing operations underline the diversity. While Southwestern Bell, Nynex and US West have invested heavily in UK cable TV and telephone networks, Ameritech and Bell Atlantic have kept clear and been on the privatisation trail. (They are joint partners in New Zealand and are active elsewhere). Pacific Telesis has been concentrating on wireless. As Bell Atlantic's Mr Smith puts it:

"Our strategy abroad is simple - to export what we do well here."

BellSouth, the largest of the RBOCs by revenue, is one of the broadest ranging in its international portfolio. Its activities include a stake in Optus (the main challenger to the state fixed-wire operator in Australia), an 80m mobile data transmission network in France (being built with France Telecom, the state operator), and a stake in a cellular network in Germany.

Overseas cellular licences are a field of marked contention between the RBOCs. At least three RBOCs were looking for partners with whom to bid for the new GSM digital licence in Italy.

In terms of variety, US West is not far behind BellSouth. It

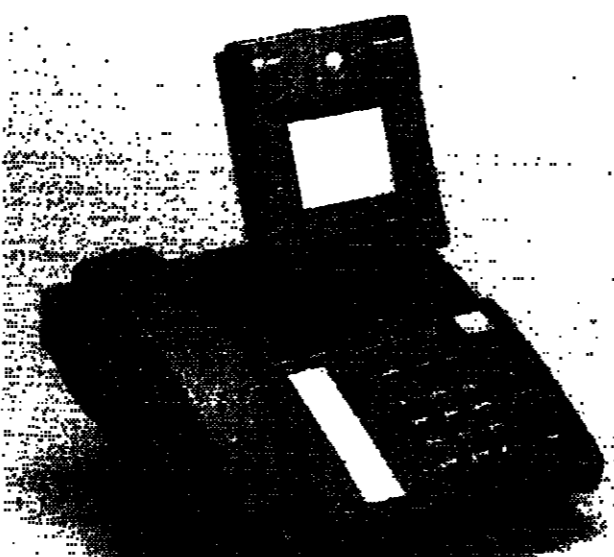
has cellular operations in Russia and eastern Europe, and is pitching for a basic line-construction contract in India. In the UK it is operating combined cable TV/telephone networks and has a 50 per cent stake in Mercury One-2-One, the UK's new PCN cellular network. It intends to take home the experience gained on both fronts. Lessons learned with PCN will be particularly valuable for its ambitions with PCS - the US equivalent of PCN. "There's room for us all," says Bell Atlantic's Mr Smith. And not just abroad. As one RBOC executive noted with a smile, in the US long-distance business AT&T has been cut down to about 70 per cent market share since 1984, yet its revenues have grown every year.

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Face to face: AT&T's Videophone 2500 which sends moving pictures of callers as well as their voices

## The Financial Times plans to publish a Survey on Information and Communications Technology

on Wednesday, March 16. (European Editions)  
on Wednesday, March 23. (U.S. & Japanese Editions)

The convergence of office systems, information technology and telecommunication has been driven by deregulation and global competition. Cheap microelectronics and networking have made these changes possible. Publication of this survey will be timed to coincide with CeBIT in Hannover, Germany and Uniforum in San Francisco U.S.A.

For more information on FT technology surveys contact:

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## FT Surveys

## PRIVATE PLACEMENT OF EQUITY

**Warburg, Pincus Investors, L.P.**

has provided an investment in

**A-R Cable Services, Inc.**

an affiliate of

**CABLEVISION**  
Cablevision Systems Corporation

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**CHASE**

**NEXTEL**  
Nextel Communications, Inc.

has sold 2.5% of its common stock for \$14.50 per share to

**COMCAST CORPORATION**

The investment was made pursuant to a private placement memorandum dated January 1994, and was not registered under the Securities Act of 1933.

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**CHASE**

**NEXTEL**  
Nextel Communications, Inc.

has sold 2.5% of its common stock for \$14.50 per share to

**NTT America, Inc.**

an affiliate of

**NTT**  
Nippon Telegraph and Telephone Corporation

The investment was made pursuant to a private placement memorandum dated January 1994, and was not registered under the Securities Act of 1933.

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## PRIVATE PLACEMENT OF DEBT

**COMLES MEDIA COMPANY**

has sold \$28,550,000 of Senior Notes due 2003

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**CHASE**

**L'Espresso la Repubblica**  
Espresso International Holding S.A.  
Editore L'Espresso S.p.A.

has sold \$125,000,000 of Senior Notes

**Series A Notes Due 2000**  
\$60,000,000

**Series B Notes Due 2000**  
\$65,000,000

The investment was made pursuant to a private placement memorandum dated January 1994, and was not registered under the Securities Act of 1933.

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**CHASE**

**UNITED**  
United Newspapers plc

has sold \$100,000,000 of Senior Notes due 1999

The investment was made pursuant to a private placement memorandum dated January 1994, and was not registered under the Securities Act of 1933.

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## DEBT UNDERWRITING

**SBG**  
SBC BROADCAST GROUP

has sold \$200,000,000 of 10% Senior Subordinated Notes due 2003

Price 100%

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**CHASE**

**GTE**  
GTE Newell Telephone Company Incorporated

has sold \$125,000,000 of 8 1/4% First Mortgage Bonds due 2005

Price 98.197%

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**CHASE**

**TELECOM**  
Telecom Argentina STEF-Telecom S.A.

has sold U.S. \$500,000,000 of 8 3/8% per cent. Obligations due 2000

U.S. \$500,000,000

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**CHASE**

**TELCEL**  
Telcel International Limited

has sold U.S. \$50,000,000 of 9 per cent. Guaranteed Notes due 1999

U.S. \$50,000,000

The investment was made pursuant to a private placement memorandum dated January 1994, and was not registered under the Securities Act of 1933.

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**CHASE**

**Grupo Televisa, S.A. de C.V.**

has sold U.S. \$100,000,000 of Floating Rate Notes due 1999

U.S. \$100,000,000

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**CHASE**

**HOCHTIEF**  
Hochtief Aktiengesellschaft

has sold U.S. \$75,000,000 of Corporate Senior Notes due 2000

U.S. \$75,000,000

The investment was made pursuant to a private placement memorandum dated January 1994, and was not registered under the Securities Act of 1933.

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**CHASE**

## PROJECT FINANCE

## DERIVATIVES

**Grupo Televisa, S.A. de C.V.**

has sold 3 Year Interest Rate Swap

The investment was made pursuant to a private placement memorandum dated January 1994, and was not registered under the Securities Act of 1933.

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**CHASE**

**EZ Communications, Inc.**

has sold \$24,074,000 of Amortizing Self Funding Cap

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**CHASE**

**Northern Telecom Inc.**

has sold \$480,000,000 of Trust Funds

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**CHASE**

**Puerto Rico Telephone Company**

has sold \$200,000,000 of Trust Funds

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**CHASE**

**TELCEL**  
Telcel International Limited

has sold U.S. \$100,000,000 of Floating Rate Notes due 1999

U.S. \$100,000,000

The investment was made pursuant to a private placement memorandum dated January 1994, and was not registered under the Securities Act of 1933.

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**CHASE**

**CELUMOVIL**  
Celular Movil de Colombia S.A. - CELUMOVIL

has sold U.S. \$480,000,000 of Cellular Limited Assets

U.S. \$480,000,000

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**CHASE**

## GLOBAL CUSTODY

## ADVISORY

## SYNDICATED LOANS

**Journal Register**  
Journal Company, Inc.

has sold \$222,500,000 of Senior Credit Facilities

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**CHASE**

**Infinity Broadcasting Corporation**

has sold \$115,000,000 of Senior Credit Facilities

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**CHASE**

**CenCall**  
CenCall, Inc.

has sold \$115,000,000 of Senior Credit Facilities

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**CHASE**

**MobileMedia**  
MobileMedia Communications, Inc.

has sold \$100,000,000 of Senior Credit Facility

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**CHASE**

**Renaissance**  
Renaissance Communications Corp.

has sold \$200,000,000 of Senior Credit Facility

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**CHASE**

**Turner Broadcasting System, Inc.**

has sold \$1,500,000,000 of Senior Credit Facilities

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**CHASE**

**Univision Television Group, Inc.**

has sold \$275,000,000 of Senior Credit Facilities

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The break-up of the old AT&T company in 1984 was largely intended to stimulate competition in the US long-distance telecommunications market.

That now appears a conservative goal. In the US - as in the UK, which licensed its first long-distance competitor to its former monopoly in the same year as divestiture - the policy emphasis is now on creating the conditions for competition in the local network, which was almost universally regarded as a natural monopoly in the mid-1980s. At that time, however, even the idea of a battle in the long-distance market was near revolutionary, with loud cries of "waste" and "needless duplication".

Few raise them today. Spending by the long-distance carriers on advertising is colossal: AT&T alone spends about 10 times as much as BT on advertising, as a proportion of turnover. There is also public scepticism about the savings to be gained from switching operators for short-term savings: so much so that the theme of much AT&T advertising is the futility of switching from one carrier to another carrier to save a pittance.

But the effect of competition in increasing the range and quality of services is undeniable. So is its impact on prices, however little they may vary between operators at any one time. The beneficiaries have not just been customers using the public networks, but also

businesses using leased lines. According to a report by the UK trade and industry department last month, the price of long-distance leased lines is barely a fraction of that charged by European operators.

Three companies operate national long-distance networks - AT&T, MCI and Sprint. There is also a host of resellers. At one stage New York boasted around 100 long-distance operators, including resellers. The ranks of resellers have thinned as margins in the long-distance business have fallen, but they can be expected to spring to life again as high-margin international traffic is fully opened to the resale market.

AT&T, MCI and Sprint divide the market roughly 70:20:10 between them. Since a rapid loss of market share in the late-1980s, AT&T has been holding its own. "The market structure is remarkably similar to other businesses with a former dominant supplier," says Mr Alex Mandl, chief executive of AT&T's communications systems division. "As soon as you have competition of any seriousness, a fifth of the market will go in its direction".

Andrew Adonis discusses the intense rivalry between the long-distance carriers

## Competition for connections gets fiercer



When the fleet's in town the lines are humming. Three companies operate national long-distance networks - AT&T, MCI and Sprint

MCI and Sprint are highly serious competitors. Says Mr Gerald Taylor, MCI vice-president responsible for marketing: "The industry has moved from a commodity business to a branded products and services business. Ten years ago we had just three products, now we have 300 - it's just like packaging and selling soap powder, only our ingredients happen to be technology."

The key is to get to the market first. MCI's triumph in the

late-1980s was its "Friends and Family" calling plan, giving residential customers reduced rates for frequently-dialled numbers. It was similarly adroit with its "1800 Collect" service. "We got there 12 weeks before AT&T, and that 12 weeks was utterly critical," says Mr Taylor.

Mr Mandl does not dissent, claiming that "competition is at least as important as technology in getting services to consumers". The opportunity

to re-sell capacity is not enough. "There have to be rival networks if the operators are going to be able to craft their own services and break the monopoly mentality".

Aside from the battle for existing long-distance business, two trends are evident. First, like the soap powder manufacturers, the long-distance carriers believe their products and branding are for export. AT&T is the most ambitious, with its

"world partners" venture aiming to provide global services to multinationals through an upgraded "backbone" network and special relationships with carriers worldwide.

Although its rhetoric is of competition with existing monopolists in Europe and elsewhere, probe gently and there is a readiness to work with almost anyone prepared to market AT&T services. "In some countries we will partner with existing state mono-

lies," Mr Mandl concedes. "On balance we would prefer to work with them if we can provide an attractive offering."

MCI hopes to accomplish the same object in partnership with British Telecommunications, the UK operator with whom it signed a \$5.3bn alliance last year. Under the arrangement, MCI is to take the lead in America, and BT beyond. But BT is learning marketing at MCI's feet: it has recently introduced a version of "Friends and Family" in the UK, and that is expected to be only the first of the exports.

The second trend is the entry of the long-distance carriers into the US local market. Arguably AT&T is already there, through its purchase last year of McCaw Cellular Communications, among the largest US cellular operators. Both AT&T and MCI have declared their intention to take part in the bidding for PCS licences due to be auctioned later this year. "The objective is a national seamless service, as a replacement for the plain old telephone service" of today, says Mr Laurence Harris, head of MCI's wireless communications group. "There are plenty of partners coming to us seeking

ing the MCI brand name, and we are as far ahead as anyone in the industry in terms of capacity."

If regulatory reform allows them into the fixed-wire local market, the long-distance carriers can be expected to exploit opportunities rapidly. They are particularly interested in the business customers so successfully exploited by competitive access providers (CAPs) in recent years. "We need a direct relationship with the end user," says Mr Mandl.

He talks equally enthusiastically of AT&T's future involvement in multi-media. "We are not in the 'content' business," he is careful to stipulate, "but we will have the 'broadband' networks, plus storage and distribution facilities, essential to anyone who wants to reach the mass market."

However, in all fields, beating the opposition is only one task. Growing the market is at least as important. "Since 1984 our revenues have risen every year, because we are after growth above all," says Mr Mandl. As Mr Taylor of MCI notes, in the past decade average prices have fallen by 50 per cent but the average telephony bill has risen from \$22 to \$26.50 in real terms. "Above all, competition has been about changing people's attitude to the telephone and the cost of using it. Every advert ramming home the point that it's cheap to call helps to do it, whoever is paying for the ad."

Apple Computer's introduction this month of the first PowerPC Macintosh personal computers will blow the starting whistle on what promises to be one of the toughest technology competitions in the history of the personal computer industry.

On the PowerPC team, together with Apple, will be Motorola and International Business Machines. Together the three companies have co-developed a microprocessor architecture which they aim to establish as a new industry standard for PCs.

They face the reigning champions of the PC microprocessor market, Intel and its league of PC-manufacturing technology partners, led by IBM.

One of the most curious aspects of this contest is that IBM is playing on both sides. Long a close ally of Intel, IBM is the largest manufacturer of Intel microprocessor-based

PCs and says it intends to remain so. However, the computer company is also a co-developer and manufacturer of PowerPC and has stated that the new technology is central to its future strategy.

This ambiguity aside, the contest is a straightforward shoot out between PowerPC and Intel's Pentium, the latest version of its long-established "x86" microprocessor lineage.

PowerPC has a Reduced Instruction Set Computing (RISC) architecture. Theoretically this suggests that it may be faster than Intel's Pentium. However, PowerPC lacks the critical software base of Intel's microprocessors and its performance in commercial systems is relatively unproven.

In contrast, Intel's Pentium has a huge head start in the marketplace as the successor of the widely used Intel 386 and 486 microprocessors, the "brains" of most PCs in use today.

The Intel chips run Microsoft's popular MS-DOS and Windows operating system software and the thousands of application programs designed to work with them.

Apple's debut of PowerPC-based Macintosh computers will be a critical test of the new technology. Apple is expected to launch three "PowerMac" computers ranging in price from about \$2,400 to about \$4,000 to replace its "Quadra" models aimed at business users. Apple says that it intends to convert 40 per cent of its Macintosh shipments to PowerPC by year's end, with the complete change-over occurring within three to four years.

For Apple, the PowerPC represents an important transition from Motorola's 68000 line of microprocessors, which it has used since the introduction of the Macintosh computer 12 years ago.

Apple needed a new microprocessor to keep pace with competitors using Intel's chips, but its decision to join with IBM and Motorola in developing a brand new architecture makes the transition more risky.

PowerPC's may have a speed advantage over Pentium. However, among existing Apple customers the PowerMac may be judged as much for its compatibility with existing Macintosh software as for its raw performance.

This could give the PowerPC

a rough start in the personal computer market. According to industry reports, about 90 per cent of existing Macintosh software will run on the new Apple computers, but only via emulation software which will significantly slow down performance.

Thus, although PowerPC may be theoretically capable of outpacing the Intel Pentium, that may not be the practical experience of the first users of personal computers based on the new microprocessor.

Apple says that about 75 application programs designed specifically for the PowerMac will be available when the computers are introduced, and that hundreds more are in development.

However, software companies are unlikely to make development of applications programs for the PowerMac a high priority. Apple says that it expects to sell up to 1m PowerMac computers in the

Louise Kehoe previews the start of a tough technology contest

## PC competitors on their marks

first 12 months. While this would be a significant achievement for Apple, it presents a relatively limited market for software designed solely for the PowerMac.

In contrast, Intel expects about 15 per cent of all PCs sold this year, or approximately 7m units, to be based on its Pentium chips. Most of the remaining 40m PCs will contain Intel 486 microprocessors. Thus Intel-based PCs represent a far larger potential market for software applications than the PowerMac.

Therefore even if the PowerMac exceeds Apple's expectations, it will hardly make a dent in Intel's dominance of the personal computer microprocessor market. Intel and its backers, meanwhile, are targeting Apple's existing market share, aiming to take advantage of the uncertainties created by the transition to PowerPC.

However, Apple is not alone in its plans to offer PowerPC-

based personal computers. IBM already offers a computer work station based on the PowerPC microprocessor. The company is expected to introduce a broad range of "Power" machines for more general use, including portable PCs. However, it is not yet clear how IBM will position these products relative to its strong Intel-based PC product line.

IBM is also actively seeking PowerPC endorsements from other computer makers. The first, Canon of Japan, said recently that it will use PowerPC in a new range of office computers and work with IBM and Motorola to develop versions of PowerPC for use in hand-held and notebook-sized computers.

In Taiwan, PowerPC has attracted great interest among PC circuit-board manufacturers. However, these sub-system manufacturers are unlikely to take a leadership role in developing the PowerPC market. Instead, they tend to wait for demand to develop in the US market.

IBM says it has sold more than 800 PowerPC "reference" specifications to PC manufacturers and software developers interested in developing prod-

ucts around the new technology. Computers that adhere to these specifications will eventually be able to run a smorgasbord of operating systems and applications software, IBM says. Microsoft has announced plans to port Windows NT to the PowerPC, and IBM's new Workplace OS will run DOS, Windows, and OS/2 applications on the PowerPC. PowerPC endorses another "multi-personality" operating environment, being developed specifically for PowerPC systems by Apple and IBM.

Together IBM and Apple aim to establish a 30 per cent share of the PC market for PowerPC by the end of the decade, leaving Intel with perhaps 60 per cent (the rest being clones of Intel microprocessors), down from about 80 per cent today.

Thus while PowerPC may somewhat diminish Intel's market share, not even its most optimistic backers expect to overtake Intel's leadership in the microprocessor market in the short term. In the longer term, the outcome of the PowerPC v Intel battle is likely to depend as much on software developers as on the relative merits of each type of microprocessor.

Louise Kehoe on reasons for the collapse of the Bell Atlantic-TCI merger

## Better ride for the 'little guy'

The unexpected collapse of the planned merger of Bell Atlantic and Tele-Communications, two of the largest and most aggressive companies in the US telephone and cable TV industries, has poured cold water on the frenzy of industry excitement surrounding the development of "information superhighways".

The merger, announced last October and initially valued at between \$20bn and \$30bn, had been touted as forming the "model communications company for the information age". Bell Atlantic, one of the most innovative of the US regional telephone companies, planned to acquire TCI, the largest US cable television company serving about 20 per cent of US homes.

Bell Atlantic had planned to establish interactive cable television services within its region of operations, while adding telephony services to TCI's cable operations in other parts of the country. The result would eventually have been a massive interactive multi-media communications network spanning more than 40 states.

By calling off their merger, Bell Atlantic and TCI have at least postponed the emergence of the first multi-media communications company with national reach. What is not yet clear, however, is how much influence the regulatory and market uncertainties which Bell Atlantic and TCI say forced them to abandon their plans, will have on deployment of the much-touted "information superhighways".

On the regulatory side, both Bell Atlantic and TCI blamed the Federal Communications Commission's recent decision to mandate a 7 per cent reduction in cable television service prices for the collapse of their deal.

TCI strongly criticised the FCC's action as "unwarranted, excessively severe, and harmful both to the national telecommunications objectives promoted by the Clinton administration and ultimately to the interests of consumers".

The price rollback will reduce TCI's cash flow by about \$144m annually, said

John Malone, TCI president. This significantly reduced the valuation put on the cable TV company in the merger talks, which had been calculated as a multiple of cash flow, he explained.

"The FCC does not seem to appreciate the impact that its action will have on the ability of the cable industry to raise capital," Mr Malone charged. The industry will be hampered in its ability to upgrading networks to carry interactive mul-

timedia signals, he said. "I hope that the FCC will come back with some very strong inducements for upgrades and expansions."

Analysts noted, however, that the FCC's action will effectively reduce the price that cable companies command, encouraging acquisitions of the numerous smaller companies in the cable TV business. For the many towns and cities throughout the US served by these smaller cable companies, this could hasten rather than retard the arrival of interactive multimedia services.

Moreover, the FCC cannot be given all the blame for the wreckage of the Bell-TCI plans. It appears that the companies faced a series of difficulties in consummating their merger. While TCI's value may have been diminished by the FCC action, Bell Atlantic's share price had already been driven down over the past four months, by Wall Street's ner-

vous reaction to the deal. This significantly reduced the value of the shares that Bell was offering for TCI, putting the deal in jeopardy.

Wall Street's concerns about the huge investments required to create information superhighways and the potential together with uncertainties about the regulatory environment, have also driven down the share prices of other US telephone companies. US West,

for example, has seen its share price decline by almost 20 per cent since mid-October, while BellSouth, another big investor in "information superhighways" has fallen 10 per cent.

Nonetheless, the lure of huge new markets for network traffic and services together with the unrelenting pace of technology development are driving rapid changes in the US telecommunications industry. Other US telephone and cable television companies have vowed to push ahead with their plans to build interactive multi-media networks.

US West, which last year acquired a 23 per cent stake in Time Warner's cable business for \$2.5bn, said that it still plans to invest \$1bn to convert Time Warner cable systems into advanced communications networks. The companies are about to begin a field trial offering about 4,000 homes in Orlando, Florida, video-on-demand services.

Cox Cable, which has teamed

up with Southwestern Bell in a \$4.9bn venture to build advanced networks, will also continue to push forward, the company said.

"The decision of regulators or corporations may change the participants, but not the deployment of superhighway technology or the timing very much," said a spokesman for BellSouth, which is involved in a joint venture with Prime Cable Management to upgrade cable systems in Las Vegas. The telephone company, "remains committed to becoming a key participant".

Ameritech is spending \$4.4bn to convert its telephone network to carry video services over the next 15 years. "We intend to stay the course we have set," said Richard Stebaert, Ameritech president. "Customers, not the industry or other forces, will set the pace for development of interactive programming."

Even Bell Atlantic is determined to press on, in spite of the merger collapse. The company will seek mergers or alliances with other companies. "This would have been the alliance on a grand scale," said James Cullen, Bell Atlantic president. "We're going to have to look for opportunities on a smaller scale."

Bell Atlantic still expects to have a broadband, fibre-optic network in place to reach more than 1m homes by the end of 1995, and 8.75m homes by 2000. Initially, the network is expected to carry basic cable services and video-on-demand. Later, other services such as home shopping, home banking, remote education and video games may be added.

Some even see the collapse of the Bell Atlantic-TCI deal as a positive development because it might have deterred competition in the emerging market for advanced multi-media communications.

"The end of this merger is not the end of the information superhighway, but the beginning of a superhighway we can all afford to ride," said Senator Howard Metzenbaum, who had opposed the merger. "Without these giants hogging the road, the little guy is less likely to get squeezed."

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## US COMMUNICATIONS 5

## Portable communications aids

Personal communications devices will converge: voice, text, information, operators that help keep track of appointments and agendas, to personal entertainment "agents" that	portable devices of digital video games network. Electronic notepads will be the equivalent of the paper notepad. Downloading onto a desktop computer will ensure that notes are not	lost. Electronic books will be multimedia versions of a paperback, while the "multi-purpose" personal communicators will incorporate facsimile, paging and electronic mail functions.
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'Personal digital assistants' have not yet caught on, says Louise Kehoe

## Tide may turn on smart devices

The goal of the mobile communications industry is to keep you in touch "any time, anywhere". Whether or not this is an attractive proposition, it seems to be the inevitable fate of many professionals in the not-too-distant future.

Already, many are touting a bag full of communications gadgets: a cellular telephone, a pager and a notebook computer complete with telephone modem. Combine the functions of these products into a single device and you have a "personal communicator".

It seemed a sure-fire winner, but so far personal communicator products, also known as "personal digital assistants", have created more publicity than profits. In fact, they have been a dismal failure.

Apple Computer's Newton was the biggest letdown. Billed as a product that would "change the way people live and work", it turned out to be a product that changed little except the names of the top

management executives at Apple. Tandy's Zoomer and AT&T's Eo Communicator have also been slow sellers.

Yet it may be too soon to write off the personal communicator. Advances in wireless data communications and software for personal communicators promise to make the next generation of these hand-held devices far more attractive than the first.

## Personal digital assistants have created more publicity than profits

Apple Computer is set to introduce a new version of Newton with improved communications capabilities and better handwriting recognition software. AT&T, stung by the disappointing sales of the Eo Communicator, is redesigning the system, lowering the price and transforming it into a mobile telephone with com-

puter features.

IBM is said to be planning a family of personal communicator products, each designed for specific tasks. One model, for example, is equipped with voice recognition for dictating notes. Another is designed for sending and receiving electronic mail.

Motorola is about to enter the market with a personal communicator called Envoy that has a built-in modem to send data both over telephone lines and over the Ardis network. Jointly owned by Motorola and International Business Machines, Ardis provides wireless data messaging service in all large US metropolitan areas. Sony is also planning to launch a personal communicator in the US this summer.

Link Resources, a US market research group, predicts a 45.7 per cent compound annual growth rate in sales of all types of "smart hand-held devices" over the next five years, with

more than 5m units being shipped to business users and consumers in the US in 1996.

The second generation of personal communicators will sell well to mobile executives and in the small office and home office markets, Link researchers predict. They anticipate several developments that could turn the tide for this new category of mobile communications devices. Most importantly, the market researchers expect wireless data communications services to proliferate and become less expensive.

At present, Ardis, a joint venture of Motorola and IBM, and Ram Mobile Data, owned by BellSouth and RAM Broad-casting, offer wireless data networks in large cities through-out the US.

This year new Cellular Digital Packet Data (CDPD) and enhanced "specialised mobile radio" (SMR) services - based on the networks being implemented by McCaw Cellular and Nextel - will drive down user

costs for wireless voice and data communications, Link Resources predicts.

CDPD sends data in packets over cellular networks. "In the simplest sense, this technology sends blocks of information over the networks by utilising those milliseconds when channels are idle between calls," said Brian Montgomery, of Cellular One, a California cellular telephone service company that is a joint venture of McCaw Cellular and Pacific Telesis. "It provides the capability for a cost-effective data service because it doesn't require expanded system capacity."

An important advantage of CDPD is that it is an "open" standard, developed by a consortium of communication companies including McCaw Cellular Communications and Pacific Cellular, based on non-proprietary technology. This means that unlike existing wireless networks, it will be accessible to anyone with a

Forecast production of "smart" hand-held devices ('000 units)

Device	1992	1993	1994	1995	1996	1997	1998
Desktop	654	598	535	527	448	408	389
Personal Agent	0	160	585	530	728	1,019	1,524
Personal Communicator	0	9	85	285	675	1,280	2,250
Intelligent electronic book	3	18	33	74	135	225	385
Electronic notepad	3	5	17	38	72	135	249
Electronic personal agent	0	0	85	15	185	275	550
Total	657	779	1,210	1,543	2,222	3,307	5,112

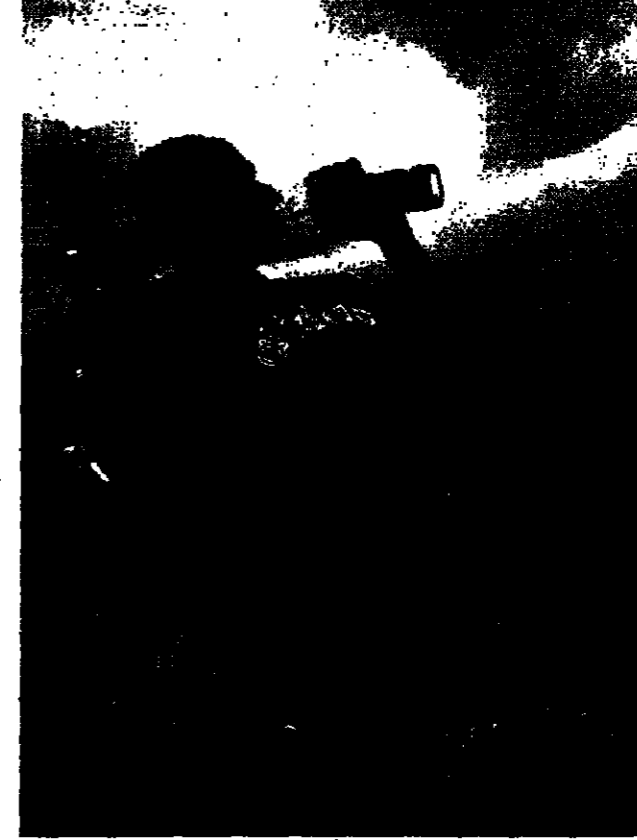
Source: Link Resources

computer or personal communicator equipped with a CDPD modem and that it can be integrated easily with existing software for applications such as electronic mail. Lotus Development, the personal computer software company, is developing software to take advantage of CDPD networks.

Nextel, a little-known six-year-old New Jersey radio dispatch service company, burst on to the scene as a potential new competitor in the emerging market for wireless data communications last year with its acquisition of mobile radio spectrum rights from Motorola. Using digital technology from Motorola, Nextel aims to create a nationwide network offering voice, data and paging as well as its established dispatch services.

When low cost wireless data communications services are in place, personal communicators will become really useful devices, enabling people to send or receive written (or typed) messages, access information services or simply use the device as a portable telephone.

Another important impetus for personal communicators may be "intelligent networks" such as AT&T's "Personal-



Keeping in touch at all times: new version of the Newton is on its way

ink". Using software developed by General Magic, a California software company in which it holds a stake, AT&T plans to introduce "PersonalLink" this summer.

Among the features of PersonalLink is the ability to prioritise messages. Perhaps more than anything else this may prove to be the "must have" attraction of personal commu-

nicators for people who are overwhelmed with telephone, facsimile and electronic mail messages.

Instead of exacerbating this all-too-common problem by creating "anywhere, anytime" communications, personal communicators may actually therefore help individuals to regain control of their personal communications.

## Louise Kehoe discusses convergence of computers with television

## Life in tomorrow's fast lane

Convergence has become the buzzword of the US high-technology industries as telephone, cable television, computer and software companies all work toward creating high-speed, broadband "information highways" linking homes, offices and schools.

The notion that these formerly distinct industries are melding into a giant "information industry" has been buoyed by a plethora of partnerships and alliances that criss-cross industry segments.

Yet it is fierce competition, rather than a meeting of minds, that is driving rapid changes in the US communications sector and the results, at least in the short term, may be more chaotic than cohesive.

US telephone companies are

engaged in a huge battle with the cable television industry. Similarly, the personal computer industry is pitted against the makers of TV sets, broadcasters and all who place their bets on TV as the primary vehicle for delivering multimedia services to the home.

As author George Gilder puts it: "The computer industry is converging with the television industry in the same sense that the automobile converged with the horse." He predicts a period of "creative

destruction" as industry segments collide and battle over establishing their new roles.

There will be "winnowing out" of many of the early participants in the rush to create interactive multimedia services, predicts Bill Gates, chairman and chief executive of Microsoft, the world's largest computer software company, which this year is investing \$100m - a quarter of its research and development budget - in software for multimedia communications services.

Just building the infrastructure for this high-speed information transport system could cost as much as \$100bn, Mr Gates estimates. Yet no one, including the companies making these investments, really knows how the market will develop, he says.

This is especially evident in the "transmission" segment where telephone and cable TV companies are spending heavily to upgrade networks. Due to progress in technology and differing assumptions about customer demand, a variety of approaches to modernisation have evolved.

To increase the capacity of networks, telephone companies are investing in optical fibre cables. Debate continues, however, on whether the optical fibre needs to run all the way to the curb, serving perhaps a dozen homes, or to neighbourhood "hubs" serving hundreds of homes.

While Bell Atlantic, for example, favours fibre to the curb, Pacific Bell has adopted a "hybrid fibre coaxial cable" approach in which fibre-optic loops link to coaxial cables that feed telephone and TV signals to groups of homes. US West plans to employ a combination of the two.

Cable TV companies already

a small area - one town or city - and are not interconnected. How this problem will be resolved remains unclear.

Even as the communications "pipe layers" continue their preparation for the advent of interactive multimedia communications services, the personal computer and television industries are involved in a

The computer industry is converging with the television industry in the same sense that the automobile converged with the horse

parallel battle. Intel, the leading manufacturer of microprocessor chips used in personal computers, maintains that personal computers will be the primary "conduit" on to the information superhighway. "PC technology is advancing far more rapidly than television technology," says Avram Miller of Intel. "Already, 30 per cent of US homes have personal computers. How long will it take for interactive television to reach that level?"

While most discussions of the information highway focus on the notion of 500 channels of interactive cable TV being piped into living rooms, Intel believes that business use of video conference and multimedia information services, delivered via the PC screen, will take off first, with applications for the home trailing by at least two years.

Meanwhile, Microsoft has developed video server software that will run on networked personal computers that sell for a fraction of the cost of a mainframe computer or supercomputer. The intense competition surrounding the implementation of "information superhighways" is probably the surest sign that this technology vision will soon become reality. Rather than a "convergence" of industries, however, it seems likely to involve the invasion of established industry sectors by ambitious newcomers. For all industry participants, keeping pace with rapid change will be essential to success.

While competition between industry sectors expands, it is already intense within established industry segments. As many as a dozen companies, for example, are vying for position in the market for TV set top terminals - electronic boxes that will sit on top of the television decoding and transmitting two-way signals.

Computer companies are already elbowing each other in the emerging market for "video servers"; electronic juke boxes that will store and retrieve films, television programmes or video clips for "on demand" services. Oracle, the leading database software company, has paired with uCube, a manufacturer of massively parallel supercomputers, in a bid to lead the video server market. But International Business Machines and Hewlett-Packard also have their eyes on this prize market. Sales of video servers are expected to surge to \$5.1bn by 1997, from just \$18m last year, according to Datquest.

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## Louise Kehoe on efforts to turn couch potatoes into couch commandos

## Superhighway into the home

The computer, telecommunications and entertainment industries are converging to turn "couch potatoes" into "couch commandos", to raise television viewers from their passive stupor and to get them "interacting" with the tube.

Interactive television will be the foundation of a \$500m digital consumer electronics industry by the turn of the century, John Sculley, the former chairman of Apple Computer, has predicted. The prospect is sparking a frenzy of activity among US telephone, cable television, entertainment, computer, software and semiconductor companies.

Hollywood and High Tech are joining forces to promote I-TV. It "will usher in the multimedia age, inaugurating the electronic superhighway into the home," enthuses Gerald Levin, chairman and chief executive of Time Warner, the entertainment group.

"This is the 'information infrastructure' that President Clinton has talked about," says Richard McCormick, chairman and chief executive of US West, one of the largest US regional telephone companies, which plans to expand its services to include I-TV.

The multi-billion dollar question, however, is whether consumers will share the industry's excitement about technology that transforms the living room TV set into a "digital interactive multimedia terminal".

Today, fledgling I-TV services offer viewers the chance to participate in television game shows, to call football players before the quarterback makes his move, order movies for instant viewing and register their opinions on issues of the day. But is this enough to "change the use of television" as industry proponents maintain?

Future plans include interactive shopping channels. Picking fashions from Nordstrom, or home furnishings from Macy's could soon become as simple as pressing a few buttons on the remote control.

There are also grand plans for multimedia information services ranging from restaurant guides complete with video footage of the dining room and a nutritional analysis of the menu, to maps that can display the most scenic route or locations of inns along the way.

Perhaps the most intriguing aspect of I-TV, however, is the prospect of being able to design your own TV channel, selecting all your favourite shows and programmes reflecting your interests. You might, for example, want to watch only a re-run of Cheers, or all news broadcasts concerning the war in Bosnia.

But with so many different potential uses for I-TV, there is little consensus on what are the "killer applications" that will lure consumers to pay for this new technology.

Games will be the "Trojan Horse" that bring I-TV into the home, providing an entrée for information services, movies-on-demand, TV shopping and other services, analysts at Salomon Brothers predict. "Consumers simply are not willing to

invest the money... for any application but games and 'entertainment'," they say. However, extensive consumer research conducted by Hewlett-Packard suggests that educational applications of interactive television, aimed at children, may be the initial attraction.

"Consumers are very shrewd. They realise that although games may have some novelty value they are not going to hold their interest for long," says Casey Lammus, HP's interactive television market development manager. She wonders, however, whether the 4,000 participants in HP's surveys, interviews and focus groups may have been giving a "morally correct" answer by putting education at the top of their list of most interesting applications.

There is a widespread suspicion among market researchers that I-TV could take off on a different note. They point out that pornographic films established the \$12m video rentals business and that on-line romance is a key attraction of computer information services. The same may be true of I-TV.

While identifying the services that will persuade consumers to pay for I-TV is difficult, market researchers have a

## The most intriguing aspect of I-TV is the prospect of being able to design your own TV channel

clearer picture of what consumers do not want. Of more than 3,000 people interviewed by H & M Consulting, a California market research firm, 94 per cent said they wanted no solicitation on I-TV and 75 per cent said no to advertising.

Consumers are afraid of the "Big Brother" factor. "They fear that their interaction habits - what they purchase, which programmes they watch and which information services they access - will be monitored by service providers to target advertising at them," explains Mark Macgillivray of H & M.

This poses a huge problem, because advertising is the primary source of revenue for the TV industry. Although advertisers relish the idea of being able to target consumers who are likely to buy their products, it seems that they will have to create new forms of advertising such as "infomercials" to catch their attention.

HP's researchers also found that consumers are concerned that I-TV will make TV shopping too easy, leading to impulse buying. "A surprisingly high number of consumers said that they already 'couldn't trust' family members with home shopping TV channels which require a phone call to order goods," notes Ms Lammus. "What would happen if they could spend money just by punching a button on a remote control?" HP's research subjects asked.

The biggest question hanging over I-TV, however, is whether people will find the time to use it. Initial response from viewers offered "movie-on-demand" service has been mixed, with most consumers making little use of it.

In addition to the uncertainties of consumer response, several economic, regulatory and technical obstacles stand in the way of widespread availability of interactive television services.

Delivering interactive TV to the home will require huge investments in optical fibre cables capable of carrying hundreds of different TV signals as well as computers to control the interactive network and store massive quantities of data for multimedia information services. Viacom, one of the largest US cable TV operators, estimates the total industry's costs at more than \$50m.

Cable TV and telephone companies are vying for the role of I-TV providers, yet neither industry has networks that are well suited to the task. While telephone networks have the two-way communication capability and sophisticated switching systems needed for I-TV, they lack the broad band width needed for hundreds of video signals. Cable TV networks have higher capacity, although most will need to be upgraded for I-TV, and they are not designed for two-way communications.

Regulatory barriers limit the activities of US telephone companies. While the Clinton administration is backing legislation that will enable "open competition" in telephone and television services, many details have yet to be worked out.

There are, as yet, no technical standards for interactive television. Early purchasers could get stuck with the I-TV equivalent of a Betamax; the losing contender in the video tape recording standards battle. Similarly, cable TV operators risk choosing the wrong method of video compression, which squeezes hundreds of digitised TV signals down a single cable.

I-TV faces competition from alternative "interactive multimedia" products. 3DO, a Silicon Valley start-up company backed by AT&T, Matsushita and Time Warner, has launched a \$700 "multimedia player" and CD-ROM interactive programmes for PCs have multiplied the sales of PCs to home users.

None of this has dimmed the enthusiasm of the high technology and entertainment industries, which are banding together in a multitude of cross-industry partnerships and alliances to position themselves for the brave new world of I-TV.

Among the key players, Tele-Communications and Time Warner, the two largest US cable TV operators with a total of over 17m subscribers, are "both committed to transcending our cable systems into powerful networks that will deliver a broad array of services," says John Malo, president and chief executive of TCI. The companies have formed a joint venture to develop standard hardware and software for interactive TV networks.

Time Warner Entertainment and TCI are also partnering Sega America, the US subsidiary of the Japanese video games manufacturer, to launch "The Sega Channel", offering Sega video game owners access to a large library of games via cable television.

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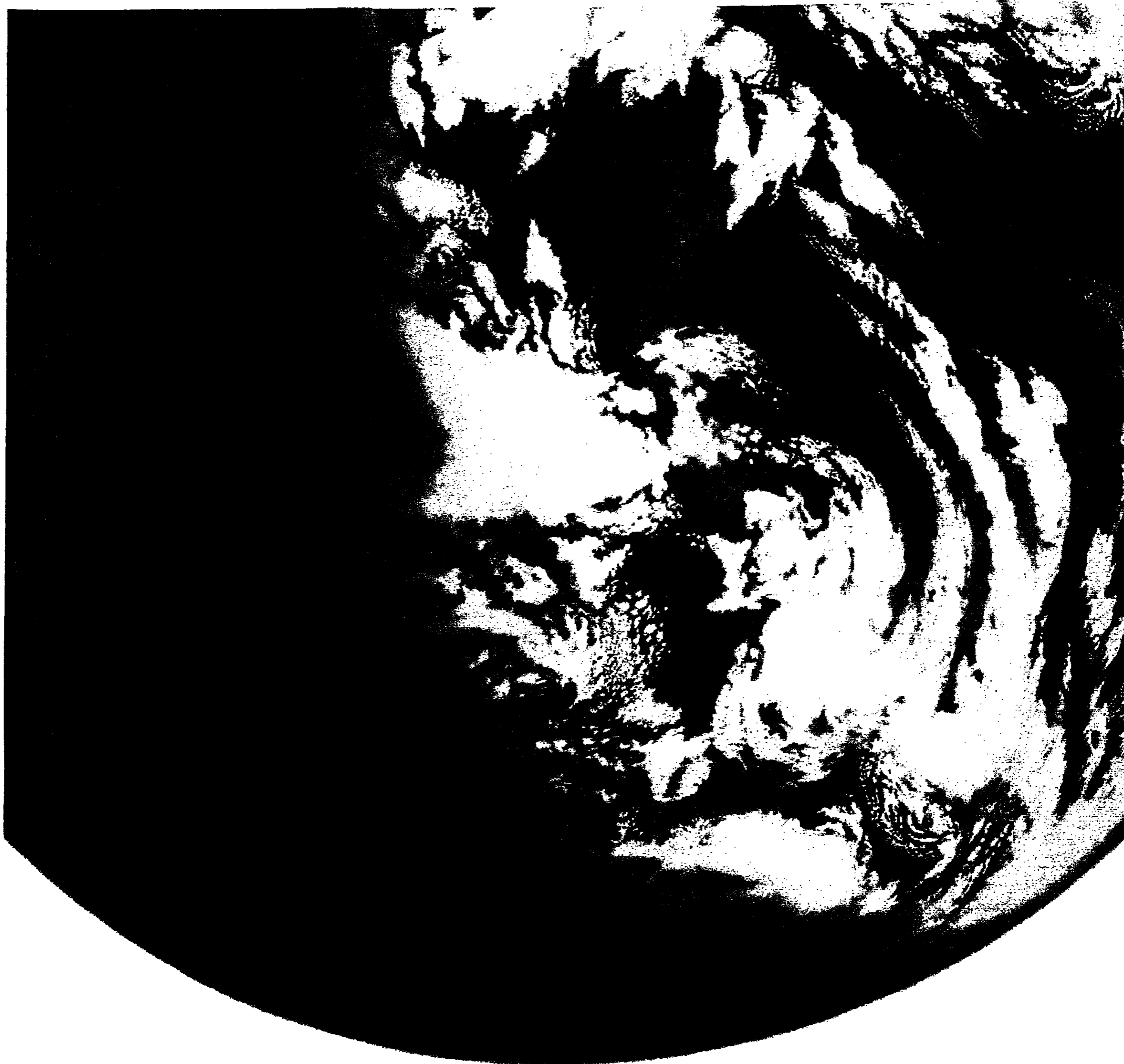
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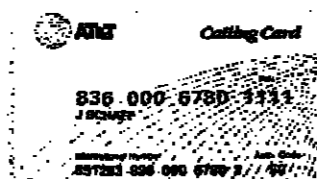
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